

# Michigan Tax Preparer Handbook for Electronic Filing

## 2014 Individual Income Tax E-file



*Michigan Department of Treasury*  
[www.MIfastfile.org](http://www.MIfastfile.org)

**INDIVIDUAL INCOME TAX  
E-FILE HANDBOOK**

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# CHAPTER 1 GENERAL INFORMATION

## IMPORTANT INFORMATION

Contact information is for **tax preparers and software developers only** and enables Treasury to provide better customer service to authorized e-file providers. **Please do not give these numbers to taxpayers.** FDES staff is unable to provide return status information or address specific taxpayer account issues. Should an error occur on the Michigan return during processing, Treasury will communicate directly with the taxpayer through the regular error resolution process. Treasury will also discuss return situations with the tax preparer if the appropriate authorization box has been completed on the return.

Michigan electronic filing (e-file) publications and forms are available on Michigan Department of Treasury's (Treasury) Web site at [www.MIfastfile.org](http://www.MIfastfile.org). For questions about the e-file program, contact Forms, Documentation and E-file Services (FDES).

|  |  |
|--|--|
| Forms, Documentation and E-file Services<br>Manager                              | Scott Bunnell  |
| Testing and File Specifications  | Nancy Agostini<br>Mark Chambers  |
| E-Mail   | <a href="mailto:MIFormsEfile@michigan.gov">MIFormsEfile@michigan.gov</a>   |
| Telephone<br>(Monday-Friday, 8.a.m. to 5 p.m. EST)                               | (517) 636-4450   |
| Michigan Relay Service   | (800) 649-3777 (TTY only)  |
| Fax  | (517) 636-6826   |
| Treasury Web Sites   | <a href="http://www.michigan.gov/taxes">www.michigan.gov/taxes</a><br><a href="http://www.michigan.gov/treasury">www.michigan.gov/treasury</a><br><a href="http://www.MIfastfile.org">www.MIfastfile.org</a> |
| Internal Revenue Service (IRS) e-help Desk<br>(Authorized e-file Providers only) | (866) 255-0654   |
| IRS Tax Help Line (individuals only)   | (800) 829-1040   |

Treasury does not recommend sending account-specific information over the Internet. Federal and State disclosure laws require that taxpayer privacy and confidential records be protected. Therefore, Treasury will not send account-specific information over the Internet in response to an e-mail inquiry.

### **E-mail LISTSERV for Tax Professionals**

The Treasury Tax Professionals LISTSERV is a free service that disseminates mass e-mail messages within seconds to all subscribers. Sign up to receive electronic communications on Treasury's e-file programs and other information of interest. To subscribe or for additional information, visit the Tax Preparer's Web site at [www.Mifastfile.org](http://www.Mifastfile.org).

### **E-file Resources**

Visit [www.Mifastfile.org](http://www.Mifastfile.org) for a list of e-file resources, how to find an e-file provider, and more information on free e-file services.

### **Self Service Options**

Treasury offers a variety of services designed to assist taxpayers and most are available 24 hours a day, seven days a week. To obtain information about an account using the Internet and Telephone Options listed below, the following information from the return is needed:

- Social Security number (SSN) of the primary filer
- Tax year of the return
- Adjusted gross income (AGI) or total household resources
- Filing status

### **Internet Options**

Visit [www.michigan.gov/incometax](http://www.michigan.gov/incometax) to find the following information:

- Current year forms and instructions
- Answers to many tax preparation questions
- Most commonly used tax forms
- Free assistance in preparing tax returns
- Retirement, Pension, Interest, Dividends, Capital Gain Estimators
- Other tax resources

Visit [www.michigan.gov/iit](http://www.michigan.gov/iit) to:

- Check the status of a return
- Check estimated payments made during the year
- Check the status of letters sent to Treasury
- Change an address
- Ask a specific question about an account
- Pay tax due on the MI-1040, and make quarterly estimated income tax and individual income tax extension payments

The secure Web site was designed specifically to protect personal tax information.

### **Telephone Options**

Treasury's **Automated Information Service (517) 636-4486** phone system is used to:

- Request the status of a refund
- Check the status of a letter sent to Treasury
- Request information on estimated payments
- Order current tax year forms

## **CHAPTER 2 INDIVIDUAL INCOME TAX**

### **BENEFITS OF INDIVIDUAL INCOME TAX E-FILE**

**Expanded services offered.** E-file is a valuable addition to a tax preparers' list of client services, which can mean more clients. In addition, prospective clients can find an authorized e-file provider at [www.irs.gov](http://www.irs.gov).

**Faster refunds for e-file returns.** E-filed returns are processed faster than paper returns. **Allow 14 days** before checking the status of the e-filed return by visiting [www.michigan.gov/iit](http://www.michigan.gov/iit) and clicking on "Check My Income Tax Info." Clients can also choose Direct Deposit and have their refunds deposited directly into their accounts at the financial institution of their choice.

**Improved return accuracy.** Treasury processes the same data the tax preparer enters into the computer. Treasury computers automatically check returns for mistakes. When easy-to-fix mistakes, like math errors or missing forms are found, the return is sent back for correction. The error can then be fixed and sent back to Treasury which prevents a simple mistake from holding up a refund.

**Detailed error conditions.** Modernized e-file (MeF) business rules pinpoint the location of the error in the return and provide complete information in the acknowledgement file that is passed back to the transmitter. MeF business rules use simple wording to clarify each error that triggers a rejection. Treasury will provide up to 10 business rule errors per return.

**Increased customer satisfaction.** Only tax preparers and their clients see the return. Tax information is encrypted and transmitted directly to the IRS and Treasury. An acknowledgment is then sent to verify the return was received and accepted for processing.

**Prior Year Returns.** Tax returns for 2012, 2013, and 2014 will be accepted during the 2015 processing year.

**Portable Document Format (PDF).** MeF accepts PDF attachments with e-filed returns. See page 14 for more information on attachments that will be accepted by Michigan.

## INTRODUCTION

Treasury has joined with the IRS to provide e-filing of Individual Income Tax (IIT) returns. The Federal/State (Fed/State) e-file Program enables taxpayers to e-file both federal and state returns through tax preparers as part of the program’s effort to provide “one-stop shopping” for tax preparation and filing. The State Standalone e-file Program enables taxpayers to e-file their state return separately from the federal return.

E-filing is the most efficient way to file your federal and state IIT returns. The IRS and Treasury plan to open the IIT 2015 filing season on January 20, 2015 and encourage taxpayers to use e-file and Direct Deposit as the fastest way to receive their refunds.

The *2014 Michigan Tax Preparer Handbook for Electronic Filing* (Michigan Handbook) follows the same format as IRS *Publication 1345 Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns (Publication 1345)*. The Michigan Handbook sets forth items that are unique to Michigan. The Michigan Handbook should be used in conjunction with *Publication 1345* and the IIT instruction booklets. Michigan will conform to all requirements, rules, and regulations governing tax preparers as set forth by the IRS.

## HIGHLIGHTS AND IMPORTANT INFORMATION FOR TAX YEAR 2014

|  |          |
|--|----------|
| Tax Rate   | 4.25%    |
| Personal Exemption                                       | \$4,000  |
| Special Exemption for Seniors                            | 0        |
| Special Exemption for Disabled                           | \$2,500  |
| Child Care Deduction                                     | 0        |
| Qualified Disabled Veteran Deduction                     | \$400    |
| Pension Deduction  |          |
| Single Filer   |          |
| Born before 1946: private pension limit                  | \$49,027 |
| Born in 1946-1947: Standard deduction against all income | \$20,000 |
| Born in 1948 through 1952                                | \$20,000 |
| Born after 1952, pension not deductible                  | 0        |
| Jointly Filed  |          |
| Born before 1946: private pension limit                  | \$98,054 |
| Born in 1946-1947: Standard deduction against all income | \$40,000 |
| Born in 1948 through 1952                                | \$40,000 |
| Born after 1952, pension not deductible                  | 0        |
| Senior Interest, Dividend, and Capital Gains             |          |
| Single Filer (not available for senior born after 1945)  | \$10,929 |
| Jointly Filed (not available for senior born after 1945) | \$21,857 |

## **E-file Requirements**

To optimize operational efficiency and improve customer service, Treasury mandated e-filing of IIT returns.

Tax preparers who complete 11 or more IIT returns are required to e-file all eligible returns. Software developers producing tax preparation software or computer-generated forms must support e-file for all Michigan IIT forms that are included in the software package.

## **E-payment**

IIT filers now have the option of making payments electronically using the Michigan Department of Treasury's e-Payments system. Paying electronically is easy, fast, and secure. The available payment types include IIT payment (tax due on the *Individual Income Tax Return* (MI-1040), quarterly estimated income tax payments, and IIT extension payments. Payments can be made using direct debit (eCheck) from a checking or savings account, or using a credit or debit card. There is no fee for eCheck payments. Credit and debit payments will be charged a convenience fee (2.35% of the total payment for credit cards and a flat fee, of \$3.95 for debit cards), which is paid directly to the payment processing vendor. Visit [www.michigan.gov/iit](http://www.michigan.gov/iit) for more information.

## **IMPORTANT NOTE:**

If the taxpayer has received an assessment or assessment number from the Michigan Department of Treasury, Office of Collections, please make the payment using Michigan Treasury's Collections e-Service. The e-Service payment button is also located at [www.michigan.gov/iit](http://www.michigan.gov/iit).

It is very important to use the proper payment system to ensure timely, accurate posting of the payment and to reduce the likelihood of further Collection action taken by Treasury.

## **Michigan Standard Deduction Reminder**

If the older filer or spouse (if married filing jointly) was born during the period of January 1, 1946 through January 1, 1948, and reached the age of 67 on or before December 31, 2014, they are eligible for a deduction against all income on the *Schedule 1 Additions and Subtractions*, line 24, and will no longer deduct pension and retirement benefits.

| <b>Filing Status</b>   | <b>Birth Year</b> | <b>Retirement Benefits Tier</b> | <b>Retirement Benefits Deduction Limits</b>              |
|------------------------|-------------------|---------------------------------|--|
| <b>Single/Separate</b> | Before 1946       | Tier 1                          | All public plus private benefits up to \$49,027 combined |
| <b>Single/Separate</b> | **1946-1952       | Tier 2                          | \$20,000   |
| <b>Single/Separate</b> | After 1952        | Tier 3                          | No deduction   |
| <b>*Joint</b>          | Before 1946       | Tier 1                          | All public plus private benefits up to \$98,054 combined |
| <b>*Joint</b>          | **1946-1952       | Tier 2                          | \$40,000   |
| <b>*Joint</b>          | After 1952        | Tier 3                          | No deduction   |

\* On a joint return, determine the eligibility for deducting retirement benefits using the age of the older spouse.

\*\* Taxpayers born during the period January 1, 1946 through January 1, 1948 do not deduct retirement benefits; and are eligible for the Michigan Standard Deduction. See *Schedule 1*, line 24 instructions.

### **Pension Schedule (Form 4884) Magen Decision**

*Magen v Dep't of Treasury*, Mich App, Docket No. 302771 (2013) may affect the tax treatment of distributions from an individual retirement account (IRA) created by a rollover of funds from another retirement plan. The published decision held that distributions from an IRA are not taxable where the entire principle in the IRA originally came from a tax-free (public) retirement plan. Due to the 2012 law changes to the taxation of pension and retirement distributions, the impact of this decision depends in large part on the age of the recipient and how much of the public pension is exempt from taxation. Practitioners should also be aware of the flipside of this decision, which requires Michigan Department of Treasury (Treasury) to “look through” the IRA distribution to the source of any rollovers. Rollovers from plans not exempt from taxation will retain their nonexempt status when distributed from the IRA.

### **Filing Extension for Military Personnel Serving in a Combat Zone**

United States military personnel serving in a combat zone on April 15, 2015, will be given 180 days after leaving the combat zone to file their federal and State tax returns and will be exempt from penalties and interest. “Combat Zone” should be entered for these returns in the Michigan Preparer Notes. Visit [www.michigan.gov/taxes](http://www.michigan.gov/taxes) for more information.

### **General Information**

Information from the W-2 and 1099 forms is entered in the software and transmitted with the e-file return. **W-2 and 1099 forms should not be mailed to Treasury.** The *Withholding Tax Schedule* (Schedule W) should be provided to the taxpayer with the printed copy of the return. Taxpayers claiming Flow-Through Withholding (FTW) are not eligible for e-file.

For IIT returns, if the federal extension request was e-filed and there is no money due, tax preparers should retain a copy of the federal extension information in their file. Copies of the extension should **not** be mailed to Treasury. If money is due, either the federal or Michigan extension form must be mailed to Treasury along with the payment.

Taxpayers granted an extension to file federal returns should enter “Federal Extension granted to MM-DD-YYYY” in the Michigan Preparer Notes.

## **KEY DATES AND REFERENCE INFORMATION**

### **Michigan IIT E-file Calendar**

For Tax Year January 1, to December 31, 2015:

**Note:** Dates are subject to change.

|   |                      |
|---|----------------------|
| Electronic Return Acceptance Period   | Identical to the IRS |
| Transmitting Returns to the IRS and Treasury                                    | January 20, 2015     |
| <i>Individual Income Tax e-file Payment Voucher</i><br>(MI-1040-V) Payments Due | April 15, 2015       |
| Deadline to File <i>Home Heating Credit Claim</i><br>(MI-1040CR-7)              | September 30, 2015   |
| Deadline to Transmit Michigan Returns<br>Electronically                         | Identical to the IRS |

### **State Program Data**

#### **Acknowledgment System**

|                                 |  |
|---------------------------------|--|
| IRS State Acknowledgment System | 1-866-255-0654 or <a href="http://www.irs.gov">www.irs.gov</a> |
|---------------------------------|--|

#### **State Program Description**

|   |  |
|---|--|
| Type of e-file Program                  | Fed/State and State Standalone                                     |
| Number of State Taxpayers               | 5 million  |
| Fed/State e-file Returns (2013)         | 3.8 million  |
| Average State Refund (2013)             | \$477.18   |
| Direct Deposit                          | Yes  |
| Balance Due Returns                     | Yes  |
| Direct Debit/Automatic Fund Withdrawals | Yes <a href="http://www.michigan.gov/iit">www.michigan.gov/iit</a> |
| Michigan Signature Required             | No-Fed/State (linked)<br>Yes-State Standalone (unlinked)           |

## **Publications**

The following publications provide information for tax professionals participating in the Fed/State e-file program.

### **IRS Publications and Forms: [www.irs.gov](http://www.irs.gov)**

*Publication 1345 Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns*

*Publication 4164 Modernized e-File (MeF) Guide for Software Developers and Transmitters*

*Publication 3112 IRS e-file Application and Participation*

*Publication 4557 Safeguarding Taxpayer Data Guidelines*

*Publication 4600 Safeguarding Taxpayer Information*

Form 9325 Acknowledgment and General Information for Taxpayers Who File Returns Electronically

### **Treasury Publications and Forms: [www.MIfastfile.org](http://www.MIfastfile.org)**

*Michigan Tax Preparer Handbook for Electronic Filing 2014 (Publication 3015)*

*Michigan Individual Income Tax Declaration for Electronic Filing (MI-8453)*

*Michigan Individual Income Tax e-file Payment Voucher (MI-1040-V)*

## **FED/STATE OR STATE-ONLY ELECTRONIC FILING**

### **How Fed/State Electronic Filing Works**

Tax preparers and transmitters accepted into the IRS e-file program may participate in the Fed/State e-file Program and file both federal and State returns together in one transmission to the IRS Service Center. The IRS will acknowledge acceptance of the federal return and receipt of State data. The IRS acknowledgment record will indicate if a State return has been submitted. The State data will then be made available for retrieval by Treasury. After the State data is retrieved, it will be acknowledged and, if accepted, processed by Treasury.

**Note: If a state submission is linked to an IRS submission, the IRS recommends sending the IRS submission first and, after it has been accepted, sending the state submission.**

## **How State Standalone (unlinked) Electronic Filing Works**

The federal return does not have to be e-filed and accepted before e-filing the State Standalone return. However, the federal tax return should be computed before computing the Michigan tax return.

Tax preparers and transmitters accepted in the IRS e-file program may participate in the State Standalone e-file program when supported by their software. Tax preparers will have to indicate in their software that it is a State Standalone filing. The IRS will perform minimal validation on the State return and issue an acknowledgment. If the return passes validation, the State data will be made available for retrieval by Treasury. After the data is retrieved, it will be acknowledged and, if accepted, processed by Treasury.

Treasury will acknowledge receipt of all returns retrieved from the IRS using the IRS State Acknowledgment Service. The transmitter should receive the Michigan acknowledgment within three days from the date the return is successfully transmitted to the IRS. The Electronic Transmitter Identification Number (ETIN) must be entered correctly in the software to act as a mailbox to receive acknowledgments.

**All returns, whether e-filed or paper-filed, are subject to Treasury audit and can be delayed regardless of the acknowledgment code received.** Returns are processed and refunds are issued daily.

Taxpayers who e-file returns with tax due are responsible for submitting payment of the balance due by April 15, 2015. When mailing the payment to Treasury, include Form MI-1040-V. Form MI-1040-V is to be used only for e-file payments.

## **APPLICATION AND ACCEPTANCE PROCESS**

### **Who May Participate**

E-filing of Michigan returns is available to all individuals who have been accepted into the federal e-file program and who transmit returns to an IRS Service Center. The IRS mandates preparers filing 11 or more IIT returns to e-file with minor exceptions. Michigan would expect any preparer e-filing federal returns to also e-file the Michigan returns.

To participate, applicants must first apply to the IRS and be accepted. Individuals must register with IRS e-Services and create a new (or revised) IRS e-file application. Individuals can contact the IRS e-help toll-free at 1-866-255-0654 for assistance.

*Publication 3112 IRS e-file Application and Participation* specifies the application process and requirements for federal participation. The definitions used by the IRS of the various categories of electronic filers, electronic return originators (EROs), transmitters, or software developers also apply for Michigan e-filing purposes.

**Once accepted into the IRS e-file program, participation in Michigan’s e-file program is automatic.** Michigan will use the Electronic Filing Identification Number (EFIN) assigned by the IRS. Michigan does not assign any additional identification numbers.

IRS regulations require paid tax preparers to use Preparer Tax Identification Numbers (PTINs) for all tax returns and refund claims. Visit the IRS Web site at [www.irs.gov](http://www.irs.gov) for more information.

To participate in Michigan’s Fed/State and State Standalone e-file programs, e-filers must use software that has successfully completed the IRS and Michigan Assurance Testing System (ATS). Confirm that the software chosen has been approved for Michigan and that the Treasury e-file program is operational before transmitting returns.

If, after acceptance, a tax preparer/transmitter or software company has production problems, Treasury reserves the right to suspend that tax preparer/software company for part or all of the remainder of the filing season.

## **MICHIGAN PORTION OF THE ELECTRONIC RETURN**

The Michigan portion of an electronic return consists of data transmitted electronically and the supporting paper documents. The paper documents contain information that cannot be transmitted electronically, such as taxpayers’ signatures.

### **Electronic Returns**

Michigan e-file will support the following 2014 IIT forms and schedules:

| <b>Form/Schedule</b> | <b>Title</b>  |
|----------------------|---|
| MI-1040              | Individual Income Tax Return                                      |
| MI-1040CR            | Homestead Property Tax Credit Claim                               |
| MI-1040CR-2          | Homestead Property Tax Credit Claim for Veterans and Blind People |
| MI-1040CR-5          | Farmland Preservation Tax Credit Claim                            |
| Schedule CR-5        | Schedule of Taxes and Allocation to Each Agreement                |
| MI-1040CR-7          | Home Heating Credit Claim   |
| 4976                 | Home Heating Credit Claim MI-1040CR-7 Supplemental                |
| MI-2210              | Underpayment of Estimated Income Tax                              |
| MI-1040D             | Adjustment of Capital Gains and Losses                            |
| MI-8949              | Sales and Other Dispositions of Capital Assets                    |

| Form/Schedule | Title  |
|---------------|--|
| MI-1040H      | Schedule of Apportionment ( <b>e-file limited to six occurrences</b> ) |
| MI-4797       | Adjustments of Gains and Losses From Sales of Business Property        |
| Schedule 1    | Additions and Subtractions   |
| Schedule NR   | Nonresident and Part-Year Resident Schedule                            |
| 4013          | Resident Tribal Member Annual Sales Tax Credit                         |
| 4642          | Voluntary Contribution Schedule  |
| 4884          | Pension Schedule   |
| 4973          | Pension Continuation Schedule  |
| 3174          | Direct Deposit of Refund   |
| 5049          | Married Filing Separately and Divorced or Separated Claimants Schedule |

**Note: Information from the W-2 and 1099 form is entered in the software and transmitted with the e-file return. Do not mail W-2 and/or 1099 forms to Treasury. All W-2 and 1099 information, when applicable, is required when submitting a State Standalone return.**

Below is a list of IIT forms, line references, and filing conditions where PDF attachments are accepted by Michigan:

| Form                                    | Line           | Description  | File Name                | Required |
|---|----------------|--|--------------------------|----------|
| MI-1040                                 | 18             | Other State Returns  | OtherStateReturn.pdf     | No       |
| All Forms                               |                | Power of Attorney  | POA.pdf                  | No       |
| MI-1040CR<br>MI-1040CR-2<br>MI-1040CR-7 | 22<br>21<br>24 | Custodial Party End of Year Statement  | FEN851.pdf               | No       |
| All Forms                               |                | MI-1310  | MI-1310.pdf              | No*      |
| Schedule 1                              | 11             | Claiming a subtraction of taxable railroad retirement benefits.  | RRB1099R.pdf             | No       |
| Schedule 1                              | 22             | Claiming Michigan subtraction for federal Schedule R but not required to include Schedule R with federal return.       | FedSchR.pdf              | No       |
| Schedule 1<br>Schedule NR               |                | Business Activity Worksheet  | BusinessActivity.pdf     | No       |
| MI-1040H                                | 12             | Unitary Calculation  | UnitaryCalculation.pdf   | Yes      |
| MI-1040CR<br>MI-1040CR-2<br>MI-1040CR-5 | 10<br>10       | Property Tax Statement   | PropertyTaxStatement.pdf | No       |
| MI-1040                                 | 26             | Worksheet to allow claimants to identify percentages they are allowed to claim for a farmland preservation tax credit. | FarmlandK1.pdf           | No       |

**New  
5/14/15**

**New  
8/19/15**

\*See note in Exclusions from E-file Section regarding the MI-1310.

**Exclusions From E-file**

When the following forms are included, Form MI-1040 **can be e-filed**, but the forms listed below **must be mailed** to the address indicated on the form.

| Form    | Title  |
|---------|--|
| MI-1045 | Application for Michigan Net Operating Loss Refund             |
| 4       | Application for Extension of Time to File Michigan Tax Returns |
| MI-1310 | Claim for Refund Due a Deceased Taxpayer                       |

**Note:** Michigan will accept e-file returns for deceased taxpayers. If a U.S. 1310 is required, that data must be included within the federal folder of the Michigan e-file return. When e-filing on behalf of a single, deceased taxpayer with a balance due federal return and a refund Michigan return, the Michigan return can be e-filed and the U.S. 1310 or *Claim for Refund Due a Deceased Taxpayer* (MI-1310) and required documents included as a PDF attachment when supported by the software or mailed to Treasury.

The taxpayer is **not eligible for e-file** for the 2014 tax year if:

| Form               | Line   | Description  |
|--------------------|--------|--|
| Various            |        | Filing federal returns or forms excluded in MeF.   |
| All Michigan Forms |        | Prior year return(s) for tax year 2011 or prior.   |
| MI-1040            | 19     | Claiming the Historic Preservation Tax Credit (Form 3581).   |
| Schedule 1         | 24     | Claiming both the Michigan Standard Deduction (line 24) and the dividend/interest/capital gain deduction (line 26) as the unremarried surviving spouse of someone born before 1946 who was at least 65 at the time of death. |
| Schedule 1         | 24     | Filing Schedule 1 and claiming the Michigan Standard Deduction on line 24 with a birthdate of January 1, 1948  |
| Schedule 1         | 25     | Claiming a pension/retirement subtraction using form 4884 when the oldest of filer or spouse is born in 1947 and died during the tax year before reaching age 67.  |
| 4884               |        | Claiming a pension/retirement subtraction using form 4884 when the oldest of filer or spouse is born January 1, 1953.  |
| MI-1040CR-5        | Part 2 | Filing with more than 25 agreements.   |
| MI-1040CR-5        | 8      | Using different total household resources than on the MI-1040CR, MI-1040CR-2 or MI-1040CR-7.   |
| MI-8949            | 1      | Filing with more than 36 short-term capital gains/losses.  |
| MI-8949            | 3      | Filing with more than 48 long-term capital gains/losses.   |
| MI-4797            | 2      | Filing with more than 16 sales/exchanges of property held more than one year.  |
| MI-4797            | 10     | Filing with more than 13 ordinary gains/losses of property held one year or less.  |
| MI-4797            | 19     | Filing with more than 17 gains from disposition of property under Sections 1245, 1250, 1252, 1254 and 1255.  |

| <b>Form</b> | <b>Line</b> | <b>Description</b>  |
|-------------|-------------|---|
| Schedule W  | Table 3     | Reporting Flow-Through Withholding (FTW)  |
| MI-1040X-12 |             | Filing the Amended Michigan Income Tax Return (2012 and 2013)                                 |
| MI-1041     |             | Filing the Fiduciary Income Tax Return  |
| MI-1040H    | 12          | Filing with more than 28 entities unitary with one another for which combining apportionment. |

### **Nonelectronic Portion of Michigan Returns**

The nonelectronic portion of the Michigan return consists of the following supporting documents:

- **Copies of other states' returns for credit.** Copies should be retained in the taxpayer's records when PDF attachments are not supported by the software.
- **Form MI-8453.** See the "Michigan E-file Signature Process" section of this Handbook for more information on Form MI-8453.
- **Form MI-1040-V.** If tax is due on an e-file return, the taxpayer must submit payment using Treasury's e-Payment system, check or money order by April 15, 2015. When mailing the payment to Treasury, include Form MI-1040-V. Form MI-1040-V is to be used only for e-file payments.
- **Copies of property tax bills.** Copies should be retained in the taxpayers' records. Treasury may request copies to verify tax information.
- **Form MI-1040CR-5.** Farmland returns claiming unequal distribution of property taxes on jointly owned land must have a distribution statement signed by all owners. Part 2 of Form MI-1040CR-5 may be used for this purpose.

Do **not** mail a copy of Form MI-1040CR-5 or the signed statement to Treasury. A copy of the signed statement should be retained to avoid reduction and/or denial of the credit. Treasury may request at a later date a copy of the signed statement to verify the unequal distribution claimed.

## MICHIGAN E-FILE SIGNATURE PROCESS

### **Fed/State Returns:**

Treasury will accept the federal signature (Self-Select Personal Identification Number (PIN) or Practitioner PIN). Treasury does not require any additional signature documentation. If the taxpayer chooses to complete Form MI-8453, Treasury recommends the tax preparer retain it for six years. Do **not** mail this form to Treasury.

### **For State Standalone Returns:**

State Standalone returns that are filed with or without Form MI-1040 can be signed using “shared secrets” or Form MI-8453 signature document. Shared secrets consist of the SSN(s), previous year’s AGI or total household resources, and the previous year’s tax due or refund amount. If Form MI-8453 is used, the tax preparer may retain a copy of Form MI-8453. Form MI-8453 should **not** be mailed to Treasury.

**Notes: The AGI or total household resources and refund or tax due amount must be from the previous year’s return. Treasury can accept this information from the original return, amended return, or return as corrected by Treasury.**

**If the return is signed using shared secrets and the return is rejected because the shared secrets do not match, the taxpayer/tax preparer may correct the shared secrets information and retransmit. There is no limit on how many times a State Standalone return can be retransmitted in this circumstance.**

The signed MI-8453 may be filed with the paper return **for signature purposes only** if the taxpayer had not previously signed a copy of the paper return. The tax preparer should attach Form MI-8453 as the last sheet of paper and write on Form MI-8453 “for signature only.”

If a taxpayer chooses Direct Deposit and the return is subsequently rejected, they must make sure the Direct Deposit information is entered on Form MI-1040; or, if requesting Direct Deposit for a home heating credit refund, complete *Michigan Direct Deposit of Refund* (Form 3174) and submit it with the paper return.

### **Declaration of Taxpayer**

After the return has been prepared and before the return is transmitted electronically, the taxpayer (and spouse, if a joint return) must verify the information on the return and sign and date Form MI-8453. The tax preparer or transmitter must provide the taxpayer with a copy of the form. Tax preparers and EROs are prohibited from allowing taxpayers to sign a blank Form MI-8453.

### **Corrections to Form MI-8453**

If the tax preparer or transmitter makes changes to the electronic return after the taxpayer has signed Form MI-8453 but before the data has been transmitted, the tax preparer or transmitter must have the taxpayer complete a corrected Form MI-8453 if the following conditions apply:

- Federal AGI differs from the amount on the electronic return by more than \$25.
- The Michigan refund changes by more than \$5.

Nonsubstantive changes are permissible on Form MI-8453, provided the tax preparer or the person making the corrections initials the changes.

### **Volunteer Groups**

If a taxpayer chooses to complete Form MI-8453, it should **not** be mailed to Treasury. Volunteer tax preparers must provide taxpayers with the MI-8453 and instruct them to retain a copy with their tax records.

## **IMPORTANT REMINDERS FOR MICHIGAN RETURN PREPARATION**

### **Direct Deposit**

The Direct Deposit information for federal and State can be different. This is especially important if there is a Rapid Refund or Refund Anticipation Loan (RAL), and the Michigan refund should not go towards repayment of the loan. Make sure this information is correct for both federal and State refunds. Tax preparers may want to request documentation from the taxpayer to verify the bank account information. (See Chapter 3 for additional information on Direct Deposit.)

**Important!** Treasury cannot make any changes to Direct Deposit information after the return is transmitted.

Direct Deposit requests associated with a foreign bank account are classified as International ACH Transactions (IAT). If a Direct Deposit income tax refund is forwarded or transferred to a financial institution in a foreign country, the Direct Deposit will be returned to Treasury. If this occurs, the refund will be converted to a check (warrant) and mailed to the address on the tax return. Taxpayers should contact their financial institution for questions regarding the status of their bank account.

## **Withholding**

Verify the total Michigan withholding claimed on Schedule W, line 3, agrees with the total Michigan tax withheld as reported on the W-2 and 1099 forms. In most cases, the total withholding amount should not exceed \$999,999. Be careful not to report federal withholding, other state withholding, or Federal Insurance Contributions Act (FICA) amounts as Michigan tax withheld.

## **Form 1099-R Distribution Code**

The codes for pension subtractions from box 7 of Form 1099-R must be included in the federal record information. Distribution Code 1 (Early Distribution) is **not** an allowable subtraction on the Michigan return.

## **Schedule 1**

Line 14 on Schedule 1 should include compensation received for active duty in the U.S. Armed Forces included in AGI. Compensation from the U.S. Public Health Service, contracted employee pay, civilian pay, and DITY pay are **not** considered military pay.

Line 22 (Miscellaneous Subtractions) on Schedule 1 must include a description of the subtraction. "Miscellaneous" or "Misc." is not acceptable. Include the federal schedule reference, such as "See U.S. Schedule R, line 19," if applicable. The Preparer Notes field may be used for additional description information if necessary.

Gambling winnings reported on Form 1099G are **not** an allowable subtraction on Schedule 1.

## **Homestead Property Tax Credit**

A taxpayer must be a Michigan resident for at least six months in 2014 to be eligible for the homestead property tax credit.

To verify accurate information and avoid processing delays and/or adjustment of the credit, Treasury recommends the taxpayer provide property tax statements to support the property taxes claimed on *Homestead Property Tax Credit Claim* (MI-1040CR).

Property taxes should not be estimated. Ad valorem taxes that were levied on the homestead in 2014, including collection fees up to 1 percent of the taxes, can be claimed no matter when they are paid. Most special assessments for drains, sewers, and roads do not meet specific tests and may not be included in the computation of the credit. Special assessments may be included only if they are levied using a uniform millage rate, are based on taxable value, and are either levied in the entire taxing jurisdiction or they are used to provide police, fire, or advanced life support services and are levied township-wide, except for all or a portion of a village.

Homeowners are required to enter the taxable value on Form MI-1040CR, line 9. Returns received without the taxable value for homeowners will be rejected on e-file business rule 201.

Verify the property taxes are entered on Form MI-1040CR, line 10.

Verify the rent paid on Form MI-1040CR, line 11, is equal to the monthly rent multiplied by 12, not the annual rent multiplied by 12.

*2014 Custodial Party End of Year Statement (FEN-851)* showing child support payments paid to the Friend of Court, enter the child support portion on Form MI-1040CR, line 22. A copy of FEN-851 should be included with the e-file return as a PDF attachment.

### **Farmland Preservation Tax Credit**

It may be helpful to ask the taxpayer to provide copies of the agreements being claimed to verify information and avoid processing delays.

Multiple names on property tax statements indicate joint ownership. **Returns filed claiming joint ownership must have the signed distribution statement for all other owners.** Tax preparers should retain a copy of the signed statement in their records. Do **not** mail the signed Form MI-1040CR-5 to Treasury. To avoid the credit being reduced or denied at a later date, the tax preparer must be able to provide a copy of the signed statement upon request.

Farmland agreement numbers consist of:

- **County Code:** First two digits of the agreement number.
- **Contract Number:** The middle set of numbers between the county code and the expiration date. This number may or may not include a letter depending on if the agreement has been split.
- **Expiration Date:** Last six digits of the agreement number. The first four digits are always “1231.” The last two digits are the year the agreement expires.

### **Property Development Rights**

Taxpayers filing Property Development Rights (PDR) on Form MI-1040CR-5/Schedule CR-5 are eligible for e-file. A PDR is an easement purchased from the landowner by the Michigan Department of Agriculture on behalf of the State of Michigan to protect prime farmland from development.

PDR numbers will begin with the county code where the land is located, followed by the purchase number (always begins with “PR”), followed by the date “123199.” The “123199” date is used as a default date for e-file purposes only; a PDR does not have an expiration date (e.g.19-PR2625-123199).

### **Preparer Notes**

Software may include a Preparer Notes area for the State return. The purpose of this field is to capture additional descriptive information from lines that did not have sufficient space. Descriptions should only be placed here when necessary. Information should be identified by the form and line number. Federal Preparer Notes can contain up to 4,000 data characters. Michigan Preparer Notes can contain up to 150 characters. Tax preparers are encouraged to utilize Preparer Notes when supported by the software.

If e-filing both the federal and State returns at the same time, Treasury can view information that is entered in Preparer Notes for the federal return. Using Preparer Notes for both federal and State returns may reduce the need for Treasury to write to the taxpayer for additional information.

Examples of information that can be included in Preparer Notes:

- “Combat Zone” if taxpayer is serving in a combat zone
- “Federal Extension granted to MM-DD-CCYY” if taxpayer has been granted an extension to file his or her federal return
- Explanation of a large subtraction
- Explanation of a property tax credit and/or home heating credit claim when two or more taxpayers are sharing a home
- How taxpayer met expenses when total household resources is very low
- Explanation if using a mailing address other than taxpayer’s residence
- City of Toledo tax
- Co-owners share of property taxes
- Explanation of multiple credits filed from the same address
- Explanation of multiple family dwellings
- Explanation of taxpayers paying room and board/property tax credits
- Farmland agreement number reduced for exception by percent
- Identify where prior year farmland refund is included on federal return.

## **Safeguarding the E-file Program From Abuse and Fraud**

All authorized e-file providers must be diligent in recognizing and preventing fraud and abuse in the e-file program. Providers with problems involving fraud and abuse may be suspended or expelled from participation in Michigan's e-file program, be assessed civil and preparer penalties, or be subject to legal action. Refer to IRS *Publication 4557 Safeguarding Taxpayer Data, A Guide for Your Business*, and *Publication 4600 Safeguarding Taxpayer Information*.

## **TRANSMITTING THE MICHIGAN ELECTRONIC RETURN**

The ERO, tax preparer, and/or electronic transmitter must follow all electronic transmitting procedures, communication requirements, and technical specifications required by the IRS as defined in *Publication 1345* to transmit the State electronic return with or without the federal return.

### **Where to Transmit Fed/State and State Standalone Returns**

Participants must confirm with their software developers or direct transmitters that the software has been accepted for transmitting the returns to the IRS Service Center. Participants should also confirm that the Michigan e-file portion of the software program is operational before transmitting returns.

### **Acknowledgment of Electronic Returns**

Michigan uses the IRS State Acknowledgment Service. The Michigan acknowledgment informs transmitters that the return data has been received. The Michigan acknowledgment is separate from the federal acknowledgment (Refer to IRS Web site for IRS rejection and error code explanation).

If a federal return is rejected, the accompanying Michigan return will also be rejected. If the error is one that can be corrected, both return records may be retransmitted to the IRS. Do not assume that an acknowledgment from the IRS is a guarantee of receipt by Michigan.

Under normal processing conditions, the Michigan acknowledgment file is available to a transmitter within three business days of successful transmission to the IRS. Transmitters who transmit for EROs and tax preparers must notify taxpayers of the Michigan acknowledgment at the time of receipt.

Michigan tax due returns are considered timely filed if the federal and State returns are originally transmitted to the IRS by April 15, 2015. Payments must be postmarked no later than April 15, 2015.

## **Status Codes Received from Treasury**

Treasury will perform certain checks on the State return during the acceptance process. All returns, whether e-filed or paper-filed, are subject to Treasury audit, and can be delayed regardless of the acknowledgment code given. Should an error occur on the Michigan return during processing, Treasury will communicate directly with the taxpayer through the regular error resolution process. Treasury will discuss return situations with the preparer if the appropriate authorization box has been completed on the return.

### **Acceptance Status:**

- |                 |  |
|-----------------|--|
| <b>Accepted</b> | Electronic return was <b>accepted</b> and will be reviewed and processed. <b>All e-filed returns are subject to Michigan audit and can be delayed regardless of the status code given.</b>   |
| <b>Rejected</b> | Electronic return was <b>rejected</b> . If the Michigan return was rejected, a Rule Number which describes the reason for the rejection will be provided. If the Michigan return is rejected, it can be retransmitted as a State Standalone (unlinked) return. If the return was rejected the preparer may correct the error and retransmit the return. There is no limit on how many times a State Standalone (unlinked) return can be retransmitted. |

The IIT e-file Business Rules (rejection codes and descriptions) are posted in a separate document on Treasury's Web site at [www.MIfastfile.org](http://www.MIfastfile.org), under the Tax Preparer tab.

## **INDIVIDUAL INCOME TAX E-FILE PAYMENT VOUCHER FORM MI-1040-V**

Michigan will accept e-file returns with a balance due at any time during the e-file processing season. Tax preparers must furnish Form MI-1040-V to a taxpayer who e-files a return with a balance due. Instructions for completing and mailing Form MI-1040-V are located on the form. Payment of tax due returns may also be made using Treasury's e-Payment options. Visit [www.michigan.gov/iit](http://www.michigan.gov/iit) for additional information.

Tax preparers must inform taxpayers that payment of taxes due should be made no later than April 15, 2015.

**Important!** To ensure timely posting of payments, use Form MI-1040-V only for e-file returns. Do not use Form MI-1040-V to make other payments to the State of Michigan. Do not include Form MI-1040-V when mailing a paper return and payment.

## **RESPONSIBILITIES OF ELECTRONIC FILERS, TRANSMITTERS, AND EROs**

E-filers, transmitters, and EROs must abide by the terms set forth in the Michigan Handbook and must maintain a high degree of integrity, compliance, and accuracy to continue to participate in the Fed/State and State Standalone e-file programs.

### **Program Compliance**

All e-filers must comply with the requirements and specifications set forth in IRS *Publications 1345*, and *1346*; the Michigan Handbook; and the *2014 Michigan Individual Income Tax Modernized e-File Software Developer Guide and Testing Publication*.

### **Timeliness of Filing**

Transmitters must ensure electronic returns are transmitted timely. The date the electronic return is posted and acknowledged by Treasury constitutes the receipt date of the return. Any return not acknowledged by Treasury as “accepted” is considered not filed.

For the 2014 tax year, tax due returns will be considered timely filed if the original federal and Michigan returns have been transmitted on or before April 15, 2015.

Transmitters should confirm that Treasury has issued an acknowledgment of the Michigan return before considering the State filing complete.

### **Tax Preparers’ Responsibility to Clients**

Tax preparers have been entrusted with the task of filing a client’s tax return and must assume the responsibility of ensuring the return arrives at Treasury. In the event the e-filed State return fails to arrive or is rejected and cannot be retransmitted, tax preparers must notify their clients to file a paper return.

### **Changes on the Return**

After an electronic return is acknowledged as accepted, it cannot be recalled, intercepted, or changed in any manner. If either the ERO or taxpayer wishes to change any entries on an accepted e-filed return, an amended paper return (MI-1040X-12) must be filed on paper.

### **Acknowledgment of the Michigan Return**

Michigan acknowledgments are issued through the IRS State Acknowledgment Service.

Once Treasury has acknowledged an electronic return, transmitters are required to notify their EROs of acceptance within five business days.

**Transmitters and EROs must advise taxpayers** that e-file returns are usually processed within 14 business days. Allow 14 days before checking the status of an e-filed return by visiting [www.michigan.gov/it](http://www.michigan.gov/it) and clicking on “Check My Income Tax Info.”

Treasury will discuss any inquiries regarding a return with errors with the taxpayer or agent who has a power of attorney on file for the year in question.

## **CHAPTER 3 DIRECT DEPOSIT**

### **BENEFITS OF DIRECT DEPOSIT**

Michigan taxpayers can elect to have their 2014 Michigan income tax refunds directly deposited into their checking or savings accounts. When e-filing, Direct Deposit is part of the electronic record.

Direct Deposit is:

- **Convenient.** The refund is deposited directly into the taxpayer's account at the financial institution of their choice.
- **Safe.** Refunds made by Direct Deposit are never lost or stolen.
- **Reliable.** Refunds are deposited electronically, even when taxpayers are on vacation or traveling on business.
- **Confidential.** On average, fewer people will see a taxpayer's account information with Direct Deposit than with paper checks.

Treasury will not honor Direct Deposit requests made by persons who owe individual or business taxes, or have another State or federal debt that would result in their refunds being offset. This includes third-party debts such as child support, garnishments, or levies.

Treasury is not responsible for the misapplication of a Direct Deposit that is caused by error, negligence, or malfeasance on the part of the taxpayer, ERO, transmitter, software developer, financial institution, or any of their agents.

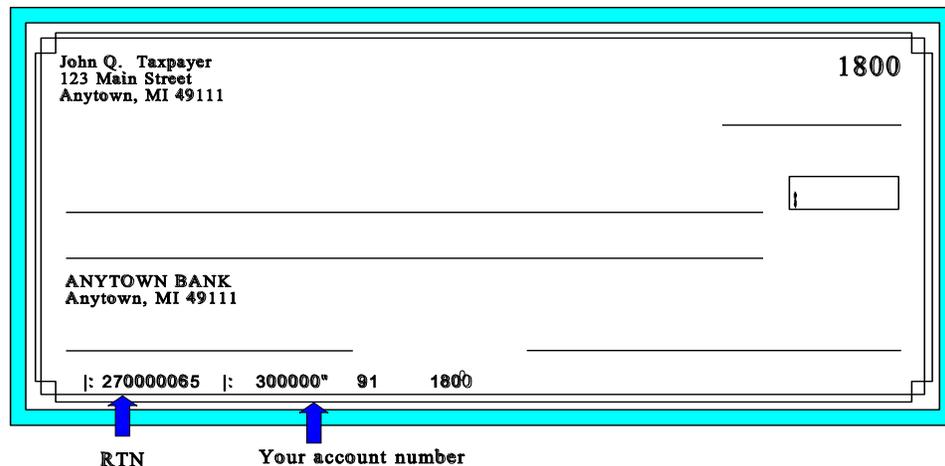
The authorization for Direct Deposit is voluntary and must be renewed yearly.

An e-filer who functions as an ERO must:

- Ensure the taxpayer is aware of the general information regarding a Direct Deposit.
- Not charge a separate fee for Direct Deposit.
- Accept a Direct Deposit election to the financial institution designated by the taxpayer.

**Note: Some smaller financial institutions may not accept Direct Deposit payments. The taxpayer or ERO should contact the financial institution to verify its capability to accept Direct Deposit transfers if unsure of the financial institution’s Direct Deposit capabilities.**

- Ensure that a taxpayer electing Direct Deposit meets the eligibility requirements. The taxpayer must provide proof of account from the financial institution the taxpayer designates to receive the Direct Deposit. This information is best obtained from official financial institution records, account cards, checks, or share drafts that contain the taxpayer’s name and address. The account must be in the taxpayer’s name.
- Direct Deposit requests associated with a foreign bank account are classified as IAT. If an income tax refund Direct Deposit is forwarded or transferred to a financial institution in a foreign country, the Direct Deposit will be returned to Treasury. If this occurs, the refund will be converted to a check (warrant) and mailed to the address on the tax return. Taxpayers should contact their financial institutions for questions regarding the status of their bank account.
- Verify the Direct Deposit information on Form MI-1040 or Form 3174 (if a paper filing becomes necessary) is correct and is the information transmitted with the electronic portion of the return.



*Note: The RTN and account number may appear in different places on your check*

- Enter the number from left to right and leave unused boxes blank. Include hyphens but omit spaces and special symbols. The Routing Transit Number (RTN) is usually found between these symbols: |: and |: . The sample check above shows where the RTN and account number may appear.
- The RTN must be nine digits. If the first two digits are not “01” through “12” or “21” through “32,” the Direct Deposit will be rejected and a refund check will be sent to the address as filed on the return.

- Michigan tax preparers may recognize a valid Michigan RTN because it generally begins with “07” or “27,” which is the Federal Reserve District that Michigan is in. “07” is for banks and “27” is for credit unions. Upper Peninsula banks may have “09” or “29.”
- Ensure the Direct Deposit of refund for Michigan is not deposited in an RAL account for the federal refund.

**Important!** Advise the taxpayer that once an electronic return has been accepted for processing by the State, the Direct Deposit election cannot be rescinded. The RTN of the financial institution or the bank account number cannot be changed.

If Form MI-1040CR-7 is filed, it is important that box 7 be checked if heating costs are currently included in rent.

When checked, the taxpayer will receive a refund and may choose Direct Deposit instead of receiving a paper check.

If box 7 is not checked, a State of Michigan energy draft will be issued. Energy drafts must be redeemed at the taxpayer’s utility company; therefore, Direct Deposit is not available.

### **Problems With Direct Deposit**

If Treasury is unable to honor a request for Direct Deposit, a refund check (warrant) will be mailed to the taxpayer’s address on the return. Following are some reasons for not honoring a Direct Deposit request:

- The taxpayer’s account was closed after the Direct Deposit request was submitted.
- The taxpayer asked to have the refund deposited into a foreign financial institution or foreign branch of a U.S. financial institution. The State of Michigan can only make Direct Deposits to accounts in U.S. financial institutions that are located in the United States.
- The taxpayer or spouse owes a debt to the State of Michigan or to a third party that requires the State to retain all or part of the refund. Treasury must satisfy this debt before issuing any remaining refund. Examples of third-party debts include child support arrearages and debts covered by a garnishment served against the refund or credit. If this situation occurs, the taxpayer will receive a letter stating the refund amount and to which debt it was applied. Depending upon the amount of the debt, there could be no remaining refund.
- The financial institution returns the Direct Deposit because an incorrect RTN or account number was entered on the electronic record.

Treasury limits the number of deposits that can be made into any one account. Therefore, Michigan is not able to process returns when a refund is deposited into the Rush Visa Card account referenced at [www.rushcard.com/index.aspx](http://www.rushcard.com/index.aspx). Participation in this program would significantly delay clients' refunds.

Any assistance in discouraging taxpayers from participating in the Rush Visa Card program in Michigan would be appreciated. If the volume of accounts using this service is too large, Treasury would have to look at the possibility of issuing paper refunds to any returns with this account number listed on the return. Treasury appreciates all cooperation in this matter.

**Important!** Taxpayers should review their monthly statements or contact their financial institutions for Direct Deposit verification. When attempting to locate a Direct Deposit, taxpayers should request their financial institutions research savings, checking, or other accounts before contacting their tax preparers or Treasury.