WELCOME TO AccountingAidSociety

Tax Masters Series
Session Two:
Tax Law Updates

November 9, 2023
5:30 p.m. to 8:00 p.m.

We use taxes to build relationships.
And relationships to build futures.

Instructors: Chelsea Vitale, Maysaa Rahal, Kathy Holka

Tax Masters, Session 2, November 9, 2023
AGENDA

Welcome and Introductions

Agency Updates

Tax Law Updates

Strike Benefits

Form 1099-K

Pension & Retirement Income

Michigan Updates

Change in Michigan Cohabitation Law

Michigan EITC

Michigan “Retirement Tax” Rollback

Changing One’s Address with Michigan Department of Treasury

Questions

Accounting Aid Society SINCE 1972

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Welcome and Introductions

Agency Updates

Meet Your Presenters

- Maysaa Rahal, VITA Program Manager
- Chelsea Vitale, VITA Program Manager
- Kathy Holka, Senior Tax Policy Analyst

Important Dates & Info

- Tuesday, 11/21: Virtual Q&A session
- Tuesday, 12/12: Virtual Returning Basic Training
- Thursday, 12/14: Virtual Q&A session
- Saturday, 12/16: Certification Advancement Training (Returning Basic to Advanced)
- Tuesday, 12/19: Virtual Returning Advanced Training
- Thursday, 1/4/24: Virtual Q&A session
- Saturday, 1/13/24: Site Coordinator Meeting

Income Guideline

- For filing season 2024, Accounting Aid Society will serve taxpayers with income **up to $64,000**

Scope and Training Resources

- **Scope of Service** – No expected changes in scope
- **Publications available at irs.gov (for 2023 returns):**
  - Pub 4012, Volunteer Resource Guide
  - Pub 4491, Volunteer Training Guide
  - Form 6744, Volunteer Assistor's Test/Retest
  - Form 13614-C, Intake/Interview & Quality Review Sheet
- **Practice Lab** – Available now (as of November 7, 2023)
- **Link and Learn** – Available mid to late November
  (Reminder to update your years of service. This has to be done manually in the system each year.)

Practice Lab

- The Practice Lab will be updated twice a week by TaxSlayer as they receive finalized forms and instructions from the IRS
- They ask volunteers **to not** report calculation issues to Support
- With Practice Lab (PL) 2023, you will have access to PL 2023 and PL 2022
- States will not be available in Practice Lab 2023 until closer to the filing season in either late December or early January. PL 2022 can be used to practice state returns.

Practice Lab (cont.)

- When using the Practice Lab, be sure to check the VITA Blog for issues identified with the Practice Lab
  - Issues have already been identified under the Blog heading of, **2023 Practice Lab: Known Issues**
  - Note that not all issues with the Practice Lab will be listed in the Blog
  - If you see something in the Practice Lab that is not a calculation issue, send an email to VITA TaxSlayerPro Support at support@vita.taxslayerpro.com

Link and Learn Certification Site

- IRS is using a new platform
- Volunteers who certified using Link and Learn last year may have received an email with information on the launching of the new site. Email specifics:
    - From “linklearnsupport” (linklearnsupport@redcedarconsultancy.com)
    - Sent on Monday, November 6, around 11:00 a.m.
    - Subject of the message was “Link and Learn Certification Site Launch”

Check your Spam or Junk folder

This is not Spam

Link and Learn Certification Site (cont.)

- Site goes live on or around November 15, 2023
- The link to access the new site is:
  - https://linklearntaxescertification.com/
- When you first log in to the site, you'll have to set a new password.
- If you have any questions, reach out to helpdesk at: linklearnsupport@redcedarconsultancy.com
- For those who did not get the initial email from "linklearnsupport", Accounting Aid will post information on our Resources page and send an email to volunteers once an update has been received that the site is live.

Update on Description for $1 AGI Returns

- To be consistent with the instructions in Pub 4012, Accounting Aid will be updating its instructions on what to enter as the description of Other Income for e-filing a $1 AGI tax return
- We previously used “To e-file MI credits”
- Going forward, please use the description “**IN ORDER TO E-FILE**”
- See page A-6 of Pub 4012 (for 2023 returns)

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Tax Law Updates

Due Dates for 2023 Tax Returns

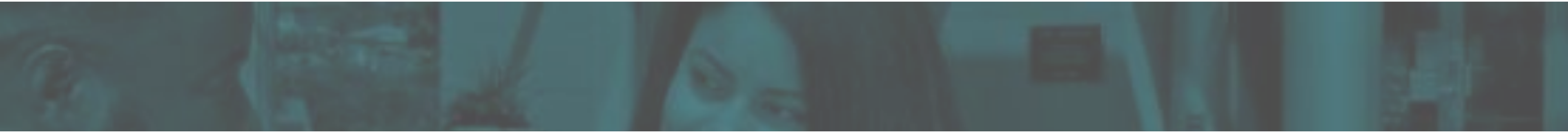
Federal and Michigan returns	Monday, April 15, 2024
Detroit return	Monday, April 15, 2024
Hamtramck, Highland Park and Pontiac returns	Tuesday, April 30, 2024

Some Tax Inflation Adjustments for 2023

	2023	2022
Gross income limitation for a qualifying relative	**$4,700**	$4,400
Standard Deduction Amounts:		
• Single	**$13,850**	$12,950
• Married filing jointly	**$27,700**	$25,900
• Married filing separately	**$13,850**	$12,950
• Head of household	**$20,800**	$19,400
• Qualifying surviving spouse	**$27,700**	$25,900

Standard Mileage Rates

Mileage for:	2023	2022 January–June	2022 July–December
Business use	**65.5 cents per mile**	58.5 cents per mile	62.5 cents per mile
Medical purposes	**22 cents per mile**	18 cents per mile	22 cents per mile
Charitable purposes	**14 cents per mile**	14 cents per mile	14 cents per mile



Strike Benefits

Strike Benefits – What are They?

- Strike pay is a payment made by a trade union to workers who are on strike to help in meeting their basic needs while on strike, often out of a special reserve known as a strike fund.
- There are three major strikes at the present time in Michigan:
  - Auto workers (represented by the United Automobile Workers union (UAW))
  - Blue Cross Blue Shield of Michigan workers (represented by the UAW)
  - Detroit casino workers (represented by five unions, including the UAW)

Are Strike Benefits Taxable?

Yes, strike pay is taxable both at the federal level and on the Michigan income tax return.

- Strike benefits are treated as earned income for the earned income credit (EIC), advanced child tax credit (ACTC), and dependent care credit.
- Taxpayers will receive Form 1099-MISC reporting the amount they received in Box 3, Other Income.
- Strike or lockout benefits (other than bona fide gifts) must be included on line 1h, Other earned income, of Form 1040.

Strike Benefits – TaxSlayer Entries

- **DO NOT** enter information on the 1099-MISC page in TaxSlayer.
- Go to Other Income > Other Income Not Reported Elsewhere. Select Other Income from the drop down, enter the description as “Strike Benefits”. Check the earned income box.
- Then remove the SE tax. Go to Other Taxes > Self Employment Tax. In the "Adjustment to nonfarm income” field, enter the amount of strike benefits as a negative (-). This will remove any SE tax associated with the strike benefit income.
- These TaxSlayer entries will result in strike pay being reported on line 1h of the 1040.

Earned Income Table

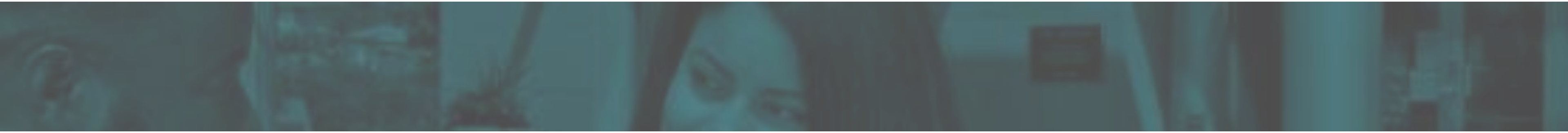
Earned Income is from page I-3 of Pub 4012 (for 2023 returns)

Earned Income for EIC²

Includes	Doesn't include
• Taxable wages, salaries, and tips • Union strike benefits • Taxable long-term disability benefits received prior to minimum retirement age • Net earnings from self-employment • Gross income of a statutory employee • Household employee income • Nontaxable combat pay election • Nonemployee compensation • The rental value of a home or a housing allowance provided to a minister as part of the minister's pay (Out of Scope)	• Interest and dividends • Social Security, including SSI and SSDI, and railroad retirement benefits • Welfare benefits • Workfare payments • Pensions and annuities (except if disability pension and taxpayer is under minimum retirement age) • Veteran's benefits (including VA rehabilitation payments) • Workers' compensation benefits • Alimony • Child support • Nontaxable foster-care payments • Unemployment compensation • Taxable scholarship or fellowship grants that aren't reported on Form W-2 • Earnings for work performed while an inmate at a penal institution or on work release[1] • Salary deferrals (for example, under a 401(k) or 403(b) plan or the Federal Thrift Savings Plan) • The value of meals or lodging provided by an employer for the convenience of the employer • Disability Insurance payments resulting from premiums paid by the taxpayer • Excludable dependent care benefits (line 25 of Form 2441) • Salary reductions such as under a cafeteria plan • Excludable employer-provided educational assistance benefits (may be shown in box 14 of Form W-2)

[1]This particular income is entered as other income on the return and not counted as earned income.

[2]The same definitions can be applied to the Additional Child Tax Credit and the Dependent Care Credit.



Form 1099-K

Form 1099-K – What is It?

- Form 1099-K, Payment Card and Third Party Network Transactions, is a report of payments the taxpayer received during the year from:
  - Credit cards, debit cards or stored value cards such as gift cards (payment cards)
  - Payment apps or online marketplaces (third-party payment networks)
- Third-party payment networks are required to file Form 1099-K with the IRS and provide a copy to the taxpayer when the gross payment amount is more than $600.
- Form 1099-K should not report gifts or reimbursement of personal expenses the taxpayer received from friends and family.

☐ CORRECTED (if checked)

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.	FILER'S TIN	OMB No. 1545-2205 Form **1099-K** (Rev. January 2022)	**Payment Card and Third Party Network Transactions**
	PAYEE'S TIN		
	1a Gross amount of payment card/third party network transactions $	For calendar year 20____	
Check to indicate if FILER is a (an): Payment settlement entity (PSE) ☐ Electronic Payment Facilitator (EPF)/Other third party ☐ Check to indicate transactions reported are: Payment card ☐ Third party network ☐	**1b** Card Not Present transactions $	**2** Merchant category code	**Copy B** **For Payee**
	3 Number of payment transactions	**4 Federal income tax withheld** $	This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
PAYEE'S name	**5a** January $	**5b** February $	
Street address (including apt. no.)	**5c** March $	**5d** April $	
	5e May $	**5f** June $	
City or town, state or province, country, and ZIP or foreign postal code	**5g** July $	**5h** August $	
PSE'S name and telephone number	**5i** September $	**5j** October $	
	5k November $	**5l** December $	
Account number (see instructions)	**6** State	**7** State identification no.	**8** State income tax withheld $ $

Form **1099-K** (Rev. 1-2022) (Keep for your records) www.irs.gov/Form1099K Department of the Treasury - Internal Revenue Service

Reporting Threshold for Form 1099-K

- Tax sites may see more 1099-Ks this filing season because the form filing threshold has been substantially reduced beginning with tax year 2023.
    - Form will be issued if payments are over $600 for goods or services, regardless of the number of transactions.
    - Previously, the form was only sent if payments were over $20,000 and payee participated in more than 200 transactions.
- There are no changes to what counts as income or how tax is calculated.
- Due diligence is needed to ascertain the correct reporting of these proceeds, if any.

Intake/Interview and Scope Limitation

A thorough interview with the taxpayer is needed to determine if there is taxable income which must be reported.

Form 1099-K, Payment Card and Third Party Network Transactions

In scope for:

- Taxable income received for self-employment income (such as shared economy driving)
  - Requires Advanced certification
- Form 1099-K received for rental income is in scope for Military certification only

Not in scope for:

- Forms 1099-K received for any other type of taxable income

Who Gets Form 1099-K

Taxpayers should receive Form 1099-K for these situations:

- **If They Received Any Payments With Payment Cards.** This includes credit cards, debit cards and stored value cards (gift cards).
- **If They Received Payments Over $600 With a Payment App or Online Marketplace**

Who Gets Form 1099-K (Cont.)

Receiving payments with a payment app or online marketplace includes payments for:

- Goods a taxpayer sells, services a taxpayer provides or property the taxpayer rents through any:
    - Peer-to-peer payment platform or digital wallet
    - Online marketplace (sale or resale of clothing, furniture and other items)
    - Craft or maker marketplace
    - Auction site
    - Car sharing or ride-hailing platform
    - Real estate marketplace
    - Ticket exchange or resale site
    - Crowdfunding platform
    - Freelance marketplace

What Shouldn't Be Reported on Form 1099-K

What Shouldn't Be Reported on Form 1099-K

- Money a taxpayer received from friends and family as a gift or reimbursement of a personal expense should not be reported on a Form 1099-K. They are not for goods or services.
    - For example: Sharing the cost of a car ride or meal, receiving money for birthday or holiday gifts, or getting repaid by a roommate for a household bill. These payments aren't taxable income.
- If possible in the payment apps, individuals should make sure to note these types of payments as “non-business”.

If You Get a Form 1099-K in Error

- A taxpayer may get a Form 1099-K in error when the form:
    - Reports payments that were gifts or reimbursements from family or friends
    - Doesn't belong to the taxpayer or is a duplicate
- If this happens, the taxpayer should:
    - Contact the issuer immediately – see FILER on the top left corner of Form 1099-K
    - Keep a copy of the original form and all correspondence with the issuer for your records

If Your Form 1099-K is Incorrect

- The taxpayer should take the following steps if any of this information on the form is incorrect:
    - Payee Taxpayer Identification Number (TIN)
    - Gross amount of payment card/third party network transactions
    - Number of payment transactions
    - Merchant Category Code (MCC)
- Request a corrected form from the issuer – see FILER on the top left corner of Form 1099-K. If they don't recognize the issuer, contact the Payment Settlement Entity (PSE) on the bottom left corner of the form above the account number.
- Keep a copy of the corrected Form 1099-K with their records, along with any correspondence they have with the issuer or PSE.
- Don’t contact the IRS. They can’t correct a Form 1099-K.

If You Can't Get a Corrected Form 1099-K

Report the amount on Schedule 1 (Form 1040), Additional Income and Adjustments to Income.

<u>Example:</u> Taxpayer receives Form 1099-K for $650 their roommate sent them for their share of rent.

On Schedule 1 (Form 1040):

- **Enter the error on Part I – Line 8z – Other income**: "Form 1099-K received in error, $650"
- **Adjust it on Part II – Line 24z – Other adjustments**: "Form 1099-K received in error, $650"

These 2 entries note the error and result in a $0 net effect on adjusted gross income (AGI).

Taxslayer Entry for Incorrect 1099-K

- **DO NOT** enter information on the 1099-K page in TaxSlayer.
- Go to Other Income > Other Income Not Reported Elsewhere. Select Other Income from the drop down menu and enter “1099K rec’d in error” for the description and enter the amount from the incorrect 1099-K.
- Then go to Deductions. Select Adjustments > Other Adjustments > Other Adjustments Not Listed Above. Enter “1099K rec’d in error” as the description and enter the amount from the incorrect 1099-K

*<u>**Note**</u>**:** The adjustments menu for the 1099-K section is still a work in progress in 2023 Practice Lab. The entries above were done in 2022 Practice Lab.

Sale of Personal Items

- A taxpayer may get a Form 1099-K if they received payments for a personal item sold through a payment app or online marketplace.
- A personal item is something owned for personal use such as a car, refrigerator, furniture, stereo, jewelry or silverware, etc.
- How these payments are reported on the tax return depends on whether the item was sold at a gain or a loss. If the taxpayer sold a mix of personal items at a gain and a loss, they should be reported separately.

Personal Item Sold at A Gain

A gain on the sale of a personal item is taxable.

If a taxpayer received a Form 1099-K for a personal item sold at a gain, it should be reported on on both:

- Form 8949, Sales and other Dispositions of Capital Assets, and
- Schedule D (Form 1040), Capital Gains and Losses

This is OUT OF SCOPE

Personal Item Sold at A Loss

Personal Items Sold at a Loss

A loss on the sale of a personal item is not deductible.

If a taxpayer received a Form 1099-K for the sale of a personal item that resulted in a loss, offsetting entries should be made on Schedule 1 (Form 1040, Additional Income and Adjustments to Income

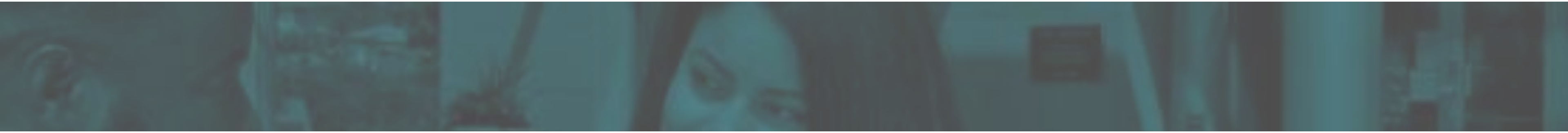
Personal Item Sold at A Loss (Cont.)

Example: Taxpayer receives a Form 1099-K for selling their couch online for $700, which is less than what they paid for it.

On Schedule 1 (Form 1040):

- **Enter the Form 1099-K gross payment amount (Box 1a) on Part I – Line 8z – Other Income:** "Form 1099-K Personal Item Sold at a Loss, $700"
- **Offset the Form 1099-K gross payment amount (Box 1a) on Part II – Line 24z – Other Adjustments:** "Form 1099-K Personal Item Sold at a Loss $700"

These 2 entries result in a $0 net effect on adjusted gross income (AGI).



Pension and Retirement Income

Partially Taxable Pensions and Annuities

- If the taxpayer made after-tax contributions toward a pension, a portion of the annuity payment has already been taxed and isn’t taxable upon distribution
- Two methods used to figure the taxable portion of each pension or annuity payment are the General Rule and the Simplified Method
- Unless an exception applies, retirees must use the Simplified Method for annuity payments from a qualified plan

Partially Taxable Pensions and Annuities (cont.)

- If a taxpayer tells you they have been using the General Rule to figure the taxable portion for past years, refer them to a professional tax preparer
- If the taxpayer's annuity starting date is before July 2, 1986, the General Rule has to be used unless the Three-Year Rule was used
- If the Three-Year Rule was used, the annuity is fully taxable
- Need to see the prior year return to help establish how the taxable portion was determined
- The Simplified Method is used to calculate the tax-free portion of each pension or annuity payment

Simplified Method Worksheet

- The Simplified Method Worksheet calculates the taxpayer’s cost basis for each monthly payment
- The number of monthly payments is based on the taxpayer’s age (and the spouse’s age if a joint/survivor annuity is selected by the taxpayer) on the annuity start date
- This calculation is not changed for subsequent events, such as divorce, marriage or death

Taxpayer’s cost basis ÷ Number of monthly payments = Monthly Tax-Free Portion

Simplified Method Worksheet
– When to Use It –

- You may need to use the Simplified Method Worksheet if on Form 1099-R:
  - Box 2a, Taxable amount, is zero or blank and an amount is shown in Box 9b, Total employee contributions
  - Box 1 and 2a contain the same amount and Taxable amount not determined box is marked

Simplified Method Worksheet – When to Use It –

- Box 5, Employee Contributions/Designated Roth Contributions or insurance premiums
  - Box 5 on Form 1099-R may be current year's amount of employee contributions or insurance premiums (recovery of cost basis or investment in the contract)
  - If Box 5 is the same as Box 1, none of the distribution is taxable
  - If the payer has calculated the taxable amount of the pension in Box 2a, generally the difference between Boxes 1 and 2a will appear in Box 5
  - If Box 5 is the amount of health insurance premiums (typically only on a CSA 1099-R), the amount must be entered in TaxSlayer for itemized deductions and/or for an adjustment on the Michigan credit claims

Form 1099-R

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.	1 Gross distribution $	OMB No. 1545-0119 2023 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	2a Taxable amount $			
	2b Taxable amount not determined ☐	Total distribution ☐		**Copy B** **Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.** This information is being furnished to the IRS.
PAYER'S TIN / RECIPIENT'S TIN	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $		
RECIPIENT'S name	5 Employee contributions/ Designated Roth contributions or insurance premiums $	6 Net unrealized appreciation in employer's securities $		
Street address (including apt. no.)	7 Distribution code(s) / IRA/ SEP/ SIMPLE ☐	8 Other $ %		
City or town, state or province, country, and ZIP or foreign postal code	9a Your percentage of total distribution %	9b Total employee contributions $		
10 Amount allocable to IRR within 5 years $ / 11 1st year of desig. Roth contrib. / 12 FATCA filing requirement ☐	14 State tax withheld $ $	15 State/Payer's state no.	16 State distribution $ $	
Account number (see instructions) / 13 Date of payment	17 Local tax withheld $ $	18 Name of locality	19 Local distribution $ $	

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Simplified Method Worksheet

- Annuity start date
  - Taxpayer must tell us the month and year when the annuity began
  - If the disability benefits were paid under this plan during the tax year, enter the date beginning after the taxpayer reached minimum retirement age as the annuity start date. The plan administrator should issue two separate 1099-R statements. If not, prorate the amount to be treated as wages based on the annuity start date.

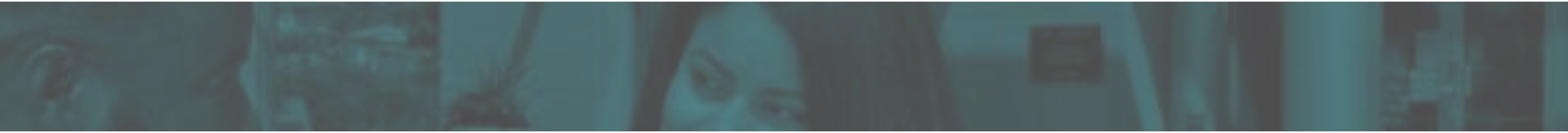
Simplified Method Worksheet

- Determining taxpayer’s age (and the spouse’s age if a joint/survivor annuity is selected by the taxpayer) on the annuity start date
- Example: Joe elected a joint/survivor annuity when he retired and started receiving his pension on July 1, 2015. Joe was born March 5, 1950 and his wife, Mary, was born on July 23, 1953.
    - See the next slide for how they compute their combined ages for the Simplified Method.

Simplified Method Worksheet

	Joe	Mary	Combined
Date of birth	3/5/1950	7/23/1953	
Date annuity started	7/1/2015	7/1/2015	
Age when annuity started	65	61	126

- Note that Mary had not reached her 62nd birthday by the day the annuity started
- To ensure the taxable portion of the pension is calculated correctly, the age of the taxpayer(s) at the annuity start date, not their age for the tax year, must be used when determining the total number of expected monthly payments.



Michigan Updates

Home Heating Credit – Supplemental Heat Credit for 2022

- A one-time supplemental payment will be sent to those who received a 2022 Michigan Home Heating Credit
- Payments were mailed in October 2023
  - Payments started the week of October 11
  - Treasury indicated that all supplemental heat credits should have been mailed by the end of October
- Payment amount for all filers is **$54**

Supplemental Heat Credit for 2022 What to Do if Not Received

- If a taxpayer received a 2022 home heating credit and they did not receive the $54 supplemental check:
  - Taxpayers can send a request asking about the payment through e-Services or call the contact center (517-636-4486)
  - In both cases, the taxpayer must successfully authenticate/verify tax information for Treasury to be able to share account specific information
  - Note: See slides at end of presentation on eServices

Tax Rate Change for 2023

- Michigan's income tax rate is reduced to **4.05% for tax year 2023** (from 4.25%)
- Note: Treasury did not update their withholding rate tables to accommodate the revised tax rate
    - Businesses could choose to continue withholding at 4.25% or refigure withholding calculations using the reduced rate of 4.05%
- On January 1, 2024, the income tax rate will return to 4.25%

2023 Exemption Amounts

	2023	2022
Personal Exemption	**$5,400**	$5,000
Special Exemptions (Deaf, blind, hemiplegic, paraplegic, quadraplegic, or totally and permanently disabled)	**$3,100**	$2,900
Qualified Disabled Veteran	**$400**	$400
Stillbirth Exemption	**$5,400**	$5,000

Totally and Permanently Disabled

The exemption for totally and permanently disabled cannot be claimed if the individual is age 66 by the designated date for the filing year

Tax Year	Date
2020 and Prior	**December 31** of the tax year
2021	**October 31, 2021** (Exemption may *not* be claimed if date of birth is ON or BEFORE October 31,1955)
2022	**August 31, 2022** (Exemption may *not* be claimed if date of birth is ON or BEFORE August 31,1956)
2023	**June 30, 2023** (Exemption may *not* be claimed if date of birth is ON or BEFORE June 30, 1957)

Anatomical Gift Donor Registry

- The Check Your Heart Act gives Michigan residents the option to join Michigan's organ donor registry upon filing their MI-1040.
  - An Anatomical Gift Donor Registry Schedule was added to Form 4642, Voluntary Contributions Schedule.
  - If a joint return is filed, the election can be made by either filer or spouse if they so choose.
  - Individuals that are already on the registry do not need to complete the donor registry schedule.

Homestead Property Tax Credit

	2023	2022
Maximum taxable value	**$154,000**	$143,000
Total household resources (THR) limit	**$67,300**	$63,000
Phase-out begins when THR exceeds	**$58,300**	$54,000
Credit limit	**$1,700**	$1,600

2023 Home Heating Credit

STANDARD ALLOWANCE		
Exemptions	Standard Allowance	Income Ceiling
0 or 1	$562	$16,043
2	$760	$21,700
3	$958	$27,357
4	$1,156	$33,013
5	$1,354	$38,671
6	$1,552	$44,329
	+$198 for each exemption over 6	+$5,657 for each exemption over 6

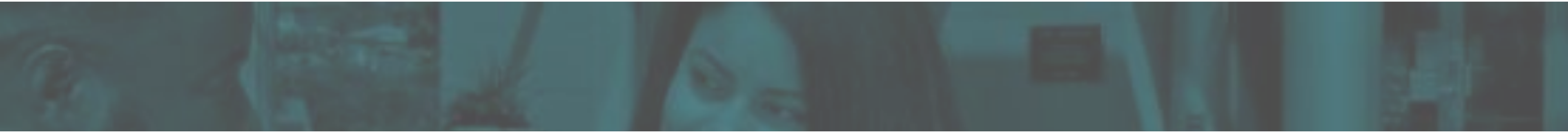
ALTERNATE CREDIT COMPUTATION	
Exemptions	Income Ceiling
0 or 1	$17,534
2	$23,595
3	$29,661
4 or more	$31,818

Service Fee and Exempt Housing List

- Below is the response from Michigan Department of Treasury when it was brought to their attention that many are curious if the service fee and tax-exempt housing lists would be updated:
    - “Return’s Processing is collecting responses to their questionnaire and hope to have an updated list available online before the filing season begins.”

Automated Call System Feedback Survey

- Treasury is conducting a survey on their automated call system
- If a client has called Michigan Department of Treasury at **517-636-4486**, ask if they would like to complete the survey
    - Anonymous – do not have to provide name or contact information. Eight questions.
- Information posted at www.michigan.gov/taxes/iit (as of 11/6/23):
    - The Individual Income Tax Automated Call System (IIT IVR) is the system that answers the Individual Income Tax Customer Contact line (517-636-4486) and directs calls to ensure that taxpayers receive accurate, timely information from Treasury representatives. Please share feedback about your experience using this system!
    - **Individual Income Tax Automated Call Feedback Survey**



Change in Michigan Cohabitation Law

Senate Bill 56

- On July 11, 2023, Governor Whitmer signed Senate Bill 56 into law. The Bill was passed with immediate effect.
- The Bill removed cohabitation between unmarried couples as a violation of Michigan criminal law.
- An unmarried partner in a cohabitation relationship might now be able to claim the other partner as a Qualifying Relative dependent if all of the other tests are met.

Excerpt from Senate Bill 56

A bill to amend 1931 PA 328, entitled

"The Michigan penal code,"

by amending section 335 (MCL 750.335), as amended by 2002 PA 672.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Sec. 335. Any ~~man or woman, not being married to each other, who lewdly and lasciviously associates and cohabits together, and any man or woman,~~ **individual**, married or unmarried, who is guilty of open and gross lewdness and lascivious behavior, is guilty of a misdemeanor punishable by imprisonment for not more than 1 year ~~,~~ or a fine of not more than $1,000.00. No prosecution ~~shall~~ **may** be

Background

- Prior to Senate Bill 56 becoming law, unmarried couples who lived together could not claim their partner as a qualifying relative because their relationship violated local law.

  The Member of Household or Relationship Test for a Qualifying Relative is:
    - The person either (a) must be related to you in one of the ways listed under “Relatives who don’t have to live with you”, or (b) must live with you all year as member of your household (and your relationship must not violate local law)

Rules for Claiming a Qualifying Relative

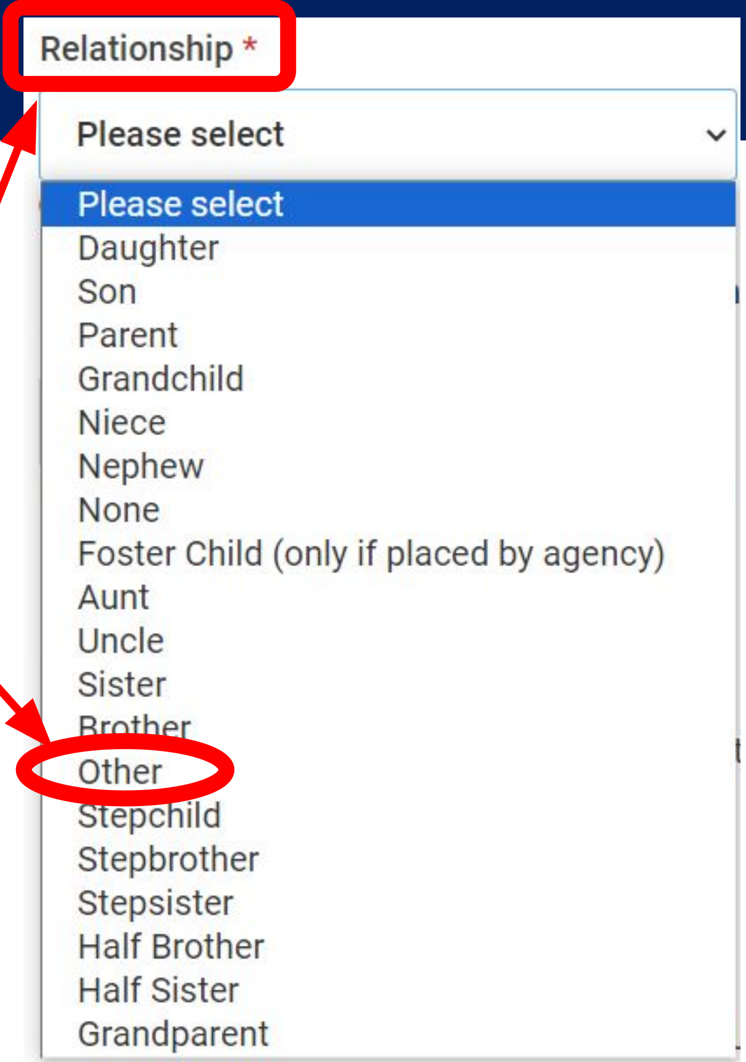
- **Qualifying Child Test** – The person can't be your qualifying child or the qualifying child of any other taxpayer.
- **Member of Household or Relationship Test** – Most relatives don't have to live with the taxpayer. Others must live with the taxpayer for the entire tax year, as is the case with an unmarried partner.
- **Gross Income Test** (Income subject to tax) – Must be less than $4,700
- **Support Test** – The taxpayer must provide more than 50%.
    - Note: Benefits provided by the government to a needy person (TANF, FIP, Food Assistance, State Disability Assistance, State SSI, Housing, SSI) are generally considered support provided by the government, not by the taxpayer. However, see the next slide.

Proposed Regulations – Government Payments as Support

- Governmental payments based on need used for the support of the recipient are considered as provided by the government.
- Governmental payments based on need made to a recipient that is used, in part, to support others are treated as support of the others provided by the recipient.
    - For example, if a taxpayer receives Temporary Aid to Needy Families (TANF) and uses the TANF payments to support a dependent, proposed regulations treat the mother as having provided that support.
- Even though proposed, taxpayers can rely on these regulations at their option.
- See IRS Pub. 4012 at Page C-3 and Pub. 17 (2022) at Page 34.

TaxSlayer Entry

On the *Dependent/Qualifying Child Information* page in TaxSlayer, select "**Other**" from the drop-down menu for **Relationship** if an unmarried partner qualifies as a Qualifying Relative.



Michigan EITC and Pension Updates

Lowering MI Costs Plan

- The Lowering MI Costs Plan (Public Act 4 of 2023):
  - Expanded the Michigan EITC from 6% of the federal credit to 30%, and
  - Rolled back the 3-tier system of limitations and restrictions on the retirement and pension subtraction.
- When does the law change formally take effect?
  - 90 days after the current legislative session closes
  - Legislative calendar has sessions scheduled through December 21, 2023, but could end earlier or later
    - Example: If session ends 12/21/23, law takes effect around March 21, 2024

Michigan EITC – Tax Year 2022

- Federally eligible individuals who claimed the Michigan EITC on their 2022 tax return received the original 6% credit
- Treasury has worked the impacted 2022 tax returns
- Once the law takes effect:
    - Treasury will issue supplemental check payments over a 5-to-6-week time period for the remaining 24% portion of the credit

Michigan EITC – Tax Year 2022
What to Do if Taxpayer Doesn’t Receive the Supplemental Payment

- Once Public Act 4 takes effect and Treasury has issued guidance on the timing of the 2022 supplemental Michigan EITC payments, **what should a taxpayer do if they did not receive the supplemental check?**
  - Taxpayers can send a request through eServices or call the contact center (517-636-4486)
  - In both cases, the taxpayer must successfully authenticate/verify tax information for Treasury to be able to share account specific information
  - Note: See slides at end of presentation on eServices

Michigan EITC – Tax Year 2022
What About Taxpayers Who Have Not Yet Filed for 2022

- For taxpayers who did not file their 2022 MI-1040 timely, but plan to do so before the statute of limitations expires (April 18, 2027) and who are eligible to claim the Michigan EITC:
    - They will receive 6% of the federal EITC for the return filed
    - They will receive the additional 24% as a supplemental check payment
    - Returns Processing within Treasury will be setting up a process to identify and issue the additional 24% of the Michigan EITC for these filers

Michigan EITC and “Retirement Tax” Rollback Tax Year 2023

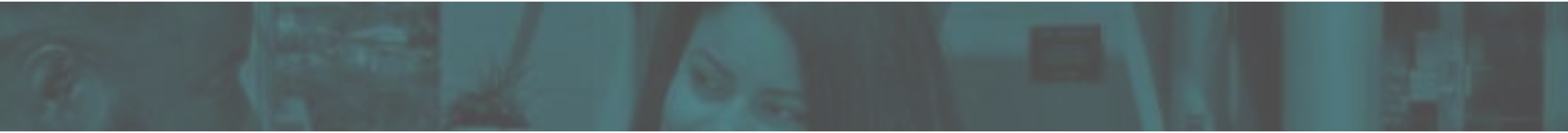
- The 2023 tax return, forms, and instructions (e-file and paper format) reflect and incorporate both tax law changes
- How Treasury handles 2023 tax returns claiming the Michigan EITC or a retirement subtraction this filing season depends on when the law takes effect:
  - If the law takes effect **before** the 2024 filing season begins, Treasury will process these returns using normal practices
  - If the law takes effect **after** the 2024 filing season begins, Treasury must hold returns that claim the Michigan EITC or a retirement subtraction until the law takes effect
    - Taxpayers may experience delays in receiving their refunds

Michigan EITC and “Retirement Tax” Rollback

- Treasury does not anticipate any 2023 tax return processing delays for Michigan filers who **do not** claim the Michigan EITC or a retirement subtraction
- Once the effective date of Public Act 4 of 2023 is known, Treasury will provide further information on:
  - 2023 tax return processing timeliness (claiming Michigan EITC or retirement subtraction), and
  - Supplemental check refunds (2022 Michigan EITC)

Michigan EITC and "Retirement Tax" Rollback – Accounting Aid Society Best Practices

- Before the filing season begins, Accounting Aid will provide talking points and best practices for 2023 Michigan tax returns claiming the Michigan EITC or a retirement subtraction



Michigan “Retirement Tax” Rollback

Michigan Tax Treatment of Retirement Distributions

Tax Years	Tax Treatment of Retirement Distributions
Pre-2012	Taxpayers could subtract most qualified retirement distributions with some dollar limitations
2012 – 2022 Public Act 38	Subtraction was limited for certain recipients based on the retiree’s date of birth for a single filer or the date of birth of the older spouse for joint filers, separating tax filers into three age-based tiers
2023 and Beyond Public Act 4	Public Act 4 phases out (rolls back) the 3-tier system of limitations and restrictions placed on the retirement subtraction since 2012

Lowering MI Costs Plan (Public Act 4 of 2023)

The Act, signed into law on March 7, 2023:

- Provides taxpayers with more options to choose the best taxing situation for their retirement benefits beginning with tax year 2023
- Has a 4-year phase-in period that will essentially restore the pension subtraction for most taxpayers beginning in 2026

Lowering MI Costs Plan (Public Act 4 of 2023)

- Public Act 4 does not impact taxpayers born before 1946 (Tier 1 taxpayers under tax year 2012–2022 rules). The retirement subtraction for these retirees continues to be unlimited for all retirement or pension benefits received from public sources. They must still reduce the maximum allowable subtraction for any private retirement by any public retirement subtraction.

Lowering MI Costs Plan (Public Act 4 of 2023)

- Public Act 4 does not impact the deduction for the following income if included in AGI:
  - Military compensation
  - Military retirement benefits due to service in the U.S. Armed Forces or Michigan National Guard
  - Railroad retirement benefits
- If included in AGI, regardless of date of birth, the benefit is deductible.
- Any subtraction on the MI-1040 for the above-listed income reduces the maximum allowed amounts for private retirement benefits.

Tax Treatment

Step 1: Verify Qualified Distribution Requirements

Step 2: Choose What Works Best

- **Option 1:** Tier Structure Subtraction
- **Option 2:** Qualified Fire, Police, and Corrections Retiree Subtraction
- **Option 3:** Phase-In Subtraction

Tax Treatment – Step 1

Step 1: Verify Qualified Distribution Requirements

- Primary requirement for a Michigan retirement subtraction:
  - The taxpayer must retire under the provisions of a retirement plan. Employer plans and individual plans each have specific specific rules for receiving pension distributions which also must be adhered to for a retirement distribution to qualify for the subtraction.
- These include most payments that are reported on Form 1099-R
  - Use the distribution code in Box 7 to determine whether a retirement and/or pension benefits qualifies as a subtraction.

Tax Treatment – Step 1

What Distributions Do Not Qualify for a Subtraction?

- Under Michigan law, deferred compensation is taxable. These distributions include:
  - All distributions from 457 plans
  - Distributions from 401(k) or 403(b) plans sourced to employee contributions and the earnings from those contributions if they were not matched by the employer
  - Early distributions under the terms of the retirement plan are always taxable

Tax Treatment – Step 1

Intake/Interview:

- Part of the interview with a client that has received a 1099-R should involve the following:
  - Ask if their distribution is from a deferred compensation plan. If yes, it doesn't qualify for a subtraction.
  - Ask if they made contributions to the pension or retirement plan that were not matched by the employer. If yes, more information is needed to determine the portion of the distribution that can be subtracted.
- Once it's been established that the pension or retirement benefit is eligible for a retirement subtraction, then use the 1099-R distribution code to determine if it's a qualified distribution.

Distribution Codes	
Form 1099-R, Box 7 Distribution Code	**Is the retirement and/or pension benefits eligible for subtraction?**
Code 1 – Early distribution, no known exception	No
Code 2 – Early distribution, exception applies	No, unless: Part of a series of mainly equal periodic payments made for the life of the employee or the joint lives of the employee and their beneficiary; Early retirement under the terms of the plan
Code 3 – Disability	Yes
Code 4 – Death	Yes, for surviving spouse only and only if the decedent would have also qualified for a normal distribution under Distribution Code 7 at the time of death
Code 7 – Normal Distribution	Yes
Codes 5, 6, 8 and 9 – Out of Scope	

Tax Treatment – Step 2

Step 2. Choose What Works Best

- **Option 1:** Tier Structure Subtraction
- **Option 2:** Qualified Fire, Police, and Corrections Retiree Subtraction
- **Option 3:** Phase-In Subtraction

Option 1: Tier Structure Subtraction

- If retiree receives a qualified pension distribution, the allowable pension subtraction is calculated based on date of birth of the taxpayer (for single/married filing separate returns) or the oldest spouse (for married filing a joint return)
- Retirees are divided into three tiers:
  - Tier 1 – Taxpayers Born Before 1946
  - Tier 2 – Taxpayers Born Between 1946 and 1952
  - Tier 3 – Taxpayer Born After 1952

Option 1: Tier Structure Subtraction – Tier 1

- **<u>TIER 1 – Taxpayers Born Before 1946:</u>** Retirees may subtract:
  - All qualifying pension benefits received from federal or Michigan public sources. Public pensions income from other states is limited to the private retirement maximums. (Some pensions from other states may not have to be limited; see the instructions.)
  - Qualifying private and retirement benefits subject to the private pension limit (adjusted by inflation each year)
    - The private pension limit is reduced by any deduction on the return for military pay and retirement benefits from the U.S. Armed Forces, Michigan National Guard, and Railroad Retirement Board.

Option 1: Tier Structure Subtraction – Tier 2

- **TIER 2 – Taxpayers Born Between 1946 and 1952:**
  - Generally, taxpayers in Tier 2 are not eligible for a pension subtraction (See exception for some surviving spouses on next slide.)
  - After reaching age 67 (on or before December 31 of the tax year), individuals are eligible to subtract the Michigan Standard Deduction against all income. (For tax years 2018 and before, see instructions for taxpayers who have not reached age 67.)
    - Standard deduction is $20,000 (single/MFS) / $40,000 (MFJ)
    - Standard deduction is reduced by any deduction on the return for military pay and retirement benefits from the U.S. Armed Forces, Michigan National Guard, and Railroad Retirement Board.

Option 1: Tier Structure Subtraction – Tier 2

- **<u>TIER 2 – Taxpayers Born Between 1946 and 1952 (cont.):</u>**
  - <u>SSA Exempt Employment</u> – Retirees with benefits from employment with a government agency that was not covered by the federal Social Security Administration (SSA) are entitled to a greater standard deduction. (See next slides on SSA Exempt Employment.)
  - <u>Surviving Spouse</u> – A surviving spouse who has reached the age of 67, has not remarried, and claimed a subtraction for retirement and pension benefits on a return jointly filed with the decedent in the year your spouse died,
    - May elect to take the retirement and pension benefits subtraction based on the older deceased spouse's year of birth subject to the limits available for a single filer instead of the standard deduction.

SSA Exempt Employment

- SSA exempt employment is not covered by the federal Social Security Administration, which means the worker did not pay Social Security taxes and is not eligible for Social Security benefits based on that employment.
- Almost all employment is covered by the federal SSA.
- The most common instances of retirement and pension benefits from employment that is not covered by Social Security are:
  - Police and firefighter retirees,
  - Some federal retirees covered under the Civil Service Retirement System and hired prior to 1984, and
  - A small number of other state and local government retirees.
  - The Federal retirees hired since 1984 and those covered by the Federal Employees' Retirement System are covered under the SSA.

SSA Exempt Employment (cont.)

- Form CSA 1099R and Form CSF 1099R from the Office of Personnel Management
    - Always ask taxpayers with these forms if they paid Social Security taxes (taxes were withheld) when they were employed by the government agency.
- Police and firefighter retirees should also be asked if they paid Social Security taxes while working.

Option 1: Tier Structure Subtraction – Tier 3

- **TIER 3 – Taxpayers Born After 1952:**
  - Most taxpayers born after 1952 are not eligible for a pension subtraction.
  - After reaching age 67 (on or before December 31 of the tax year), individuals are entitled to subtract the Michigan Standard Deduction against all income.
    - Standard deduction is $20,000 (single/MFS) / $40,000 (MFJ)
    - Standard deduction is reduced by:
      - The personal exemption amount,
      - Social Security benefits included in AGI, and
      - Any deduction on the return for military pay and retirement benefits from the U.S. Armed Forces, Michigan National Guard, and Railroad Retirement Board.

Option 1: Tier Structure Subtraction – Tier 3

- **TIER 3 – Taxpayers Born After 1952 (cont.):**
    - SSA Exempt Employment – For retirees with benefits from employment with a government agency that was not covered by the federal Social Security Administration (SSA):
        - If recipient has reached age 62 but has not reached the age of 67 – entitled to a retirement subtraction.
        - If recipient has reached age 62 but has not reached the age of 67 and retired as of January 1, 2013 – entitled to a greater retirement subtraction.
        - If recipient has reached the age of 67 and retired as of January 1, 2013 – entitled to a greater Standard Deduction.

See previous slides for information on SSA Exempt Employment.

Option 1: Tier Structure Subtraction – Tier 3

- **<u>TIER 3 – Taxpayers Born After 1952 (cont.):</u>**
  - <u>Surviving Spouse</u> – A surviving spouse who has:
    - Reached the age of 67,
    - Has not remarried, and
    - Claimed a subtraction for retirement and pension benefits on a return jointly filed with the decedent in the year your spouse died,

  May elect to take the retirement and pension benefits subtraction based on the older deceased spouse's year of birth subject to the limits available for a single filer instead of the standard deduction.

Tax Treatment – Step 2, Option 2

Option 2: Qualified Fire, Police, and Corrections Retiree Subtraction

- Certain fire, police, and corrections retirees may fully deduct, to the extent a qualifying distribution is included in AGI, retirement benefits received from Michigan service as a:
    - Public police or fire department employee,
    - State police trooper or state police sergeant, or
    - Corrections officer employed by a county sheriff in a county jail, work camp, or other facility maintained by a county that houses adult prisoners.

Tax Treatment – Step 2, Option 2 (cont.)

Option 2: Qualified Fire, Police, and Corrections Retiree Subtraction

- There is no limitation to the amount of a public pension deductible for these retirees
- Any public retirement deduction claimed reduces the maximum private retirement deduction
- Retirement benefits received from the Federal Employees Retirement System (FERS) that are attributable exclusively to service as a federal law enforcement officer generally qualify for the unlimited public retirement income deduction
- State law enforcement officers and employees retired from states other than Michigan are not eligible for the full deduction of public retirement income

Tax Treatment – Step 2, Option 2 (cont.)

Option 2: Qualified Fire, Police, and Corrections Retiree Subtraction

- The surviving spouse of a qualified fire, police, or corrections retiree is allowed a subtraction under this option if he or she filed a joint return for the tax year in which the retiree died and claimed a retirement subtraction for that year
- Because the subtraction is 100% of the retirement benefit, the age of the older spouse is not a factor in computing the subtraction.

Tax Treatment – Step 2, Option 3

Option 3: Phase-In Subtraction

- The maximum retirement subtraction described in the table below is the private pension limit established for Tier 1 retirees. It is derived based on date of birth of the taxpayer (for single/MFS returns) or the oldest spouse (for MFJ return)

Tax Year	Retiree Date of Birth	Phase-In Subtraction
2023	Jan. 1, 1946 - Dec. 31, 1958	Up to 25%
2024	Jan. 1, 1946 - Dec. 31, 1962	Up to 50%
2025	Jan. 1, 1946 - Dec. 31, 1966	Up to 75%
2026	N/A	Up to 100%

Tax Treatment – Step 2, Option 3 (cont.)

Option 3: Phase-In Subtraction

- A taxpayer electing the Phase-In Method must reduce the maximum amount allowed for that deduction by the sum of all retirement benefits included in AGI from the following sources:
  - Military pay
  - Military pension or retirement benefits
  - Railroad retirement benefits
  - Michigan National Guard benefits
  - Federal and Michigan public retirement benefits

The taxpayer would then apply the applicable phaseout percentage depending on the tax year.

Tax Treatment – Step 2, Option 3 (cont.)

Option 3: Phase-In Subtraction

- Example: Taxpayer Eve
  - Note: For tax year 2023, the private pension limit is $61,518 for single/MFS filers and $123,036 for MFJ filers
  - Eve, born in 1958, had a military pension distribution of $50,000 and a private retirement distribution of $12,000 in 2023. To calculate her private pension limit, she must subtract the $50,000 military pension from the maximum private maximum allowed ($61,518), leaving a private retirement maximum of $11,518.
    - Eve may deduct her full military pension of $50,000,
    - And 25% of $11,518 or $2,880 of her $12,000 private pension.

Tax Treatment – Step 2, Option 3 (cont.)

Option 3: Phase-In Subtraction

- If a subtraction using the Phase-In Method is claimed on a joint return in the year a spouse died and the surviving spouse has not yet remarried, the surviving spouse may use the Phase-In Method based on the older deceased spouse's year of birth and subject to the limitations applicable to a single filer

Recap of Surviving Spouse Rules

For Option 1 (Tier Structure Subtraction) and Option 3 (Phase-In Subtraction):

A surviving spouse may compute a retirement subtraction based on the date of birth of the older, deceased spouse if all of the following are true:

- A joint return was filed for the tax year in which the spouse died.
- A retirement subtraction was claimed for the year in which the spouse died.
- The surviving spouse has not since remarried.
- For Option 1, Tier 2 and Tier 3 beneficiaries, the surviving spouse has to have reached age 67 in addition to the requirements listed above.

For Option 1, Tier 2 and Tier 3 beneficiaries – If the above requirements are met, the surviving spouse may elect to take the greater of the Michigan standard deduction or the allowable retirement subtraction based on the date of birth of the older, deceased spouse.

For Option 2 (Qualified Fire, Police, and Corrections Retiree Subtraction):

A surviving spouse is allowed to subtract benefits earned by the deceased spouse if:

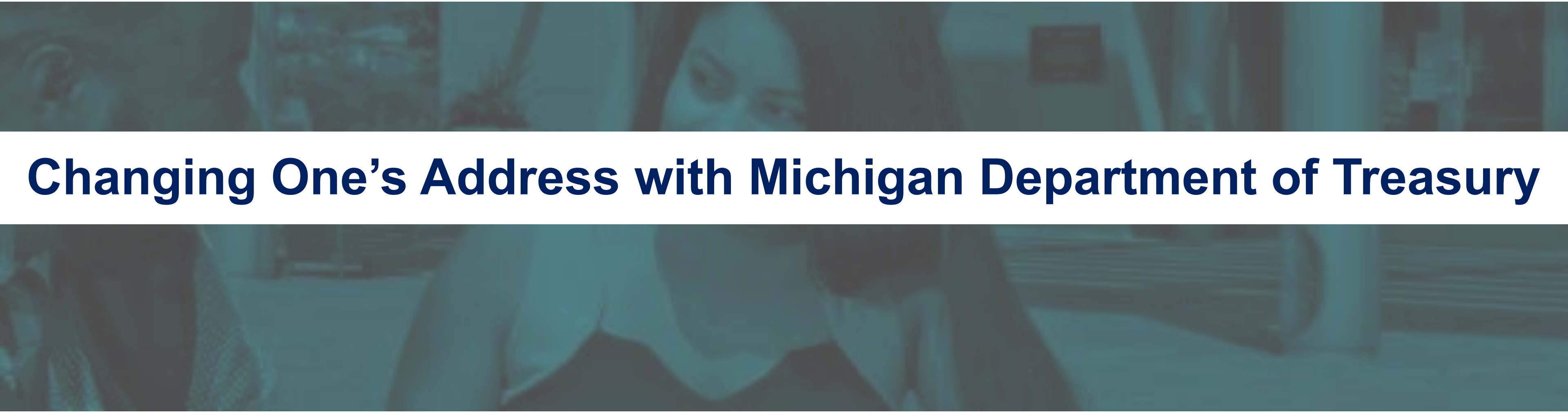
- He or she filed a joint return for the tax year in which the retiree died, and
- Claimed a retirement subtraction for that year.

Tax Year 2026 and Beyond

- Once Public Act 4 is totally phased in, in tax years 2026 and later, the rules will return to the pre-2012 treatment of retirement and pension income with one exception.
  - Prior to 2012, retirement income from federal and Michigan sources, including political subdivisions of Michigan, were totally exempt.
  - For tax year 2026 and beyond, subtractions of retirement income from these public sources are limited to the private retirement maximum.
    - The private pension limit is applied to the combined amounts of all deductible public and private pensions.

“Retirement Tax” Rollback

Refer to the MI-1040 instructions for complete instruction on the retirement subtraction.



Changing One’s Address with Michigan Department of Treasury

AccountingAidSociety

How to Change a Taxpayer Address with Treasury

- A taxpayer can either **call the contact center (517-636-4486) or use eServices** to change their address.
    - In both cases, the taxpayer must successfully authenticate/verify tax information for Treasury to be able to change the address.
- For eServices, there are two options:

  Account Services or Guest Services.
    - Go to www.michigan.gov/taxes/iit to get started

eServices: Using Account Services

- If you use Account Services, select “Change My Address” once you have logged in.
  - Note: When you create a MILogin account, you are only required to answer the verification questions **one time** for **each tax year**.
  - If you have previously established a MILogin account, you may use the same username and password for multiple state agency access. (Treasury, Secretary, Unemployment/UIA)

eServices: Using Guest Services

- If you use Guest Services, select “Change My Address” and you will be asked to enter the following information for security reasons:
    - Primary filer’s Social Security number
    - Primary filer’s last name
    - Tax year
    - Filing status
    - Adjusted Gross Income (AGI) / Total Household Resources (THR)
        - If your AGI is a negative number, enter "-" after the number. Example: 1045-
- Using Guest Services, you are required to to answer verification questions **each time** you access a **different option**

Mailing an Address Change Request

- A third option besides calling Treasury or using eServices to change one's address, is to mail in an address change request. Mail the request to:
  - Michigan Department of Treasury
    Customer Contact Section
    P.O. Box 30058
    Lansing, MI 48909
- No information is provided by Treasury as to what to include with the request
- This is likely the slowest way to change one's address
- Taxpayers should be advised to either call or use eServices

Accounting Aid Society SINCE 1972

We use taxes to build relationships. And relationships to build futures.

Questions

Thank you for your participation in this presentation!

Accounting Aid Society SINCE 1972

We use taxes to build relationships. And relationships to build futures.

END