

## MICHIGAN "CREDITS ONLY" STARTER EXERCISES

VITA clients often will not need to file a Federal or a full State of Michigan tax return.

**Michigan "credits only" clients** usually have only non-taxable income. The key factor is if the client is responsible for Property Taxes on a home they own OR if they are contracted to pay rent and in fact have paid rent during the tax year.

Use 2013 Forms to practice: <https://twonline.taxwise.com/training13> The line numbers shown refer to 2013 Michigan Tax forms. You can use 2014 forms if available, but be aware the line numbers could change.

### Your First Michigan "Credits Only" Starter Exercise

#### THE CLIENT

**Harvey Johnston** tells you he gets \$ 875 per month Social Security and no other income.

His landlord is Harry James. Rent is \$475 / month 12 months Heat is included in the rent.

Address: 221 Fourth Street  
Your City

Harvey - 517 888 -0123  
Birthdate - 6/6/1950  
Social Security Number - 551-XX-YYYY

Start the return in Taxwise.

#### STEP ONE

You interview Harvey and determine the following to be true:

- The client has no taxable income. (Or taxable income below the filing requirements.)
- The client cannot file for any Federal Credits.
- The client is the renter and paid rent during the tax year.
- He is in fact, a Michigan "credits only" client.

#### STEP TWO

Complete the Main Info Page in Taxwise - Filing Status - Single

Note that Michigan does not have Head of Household as a Filing Status.

Also note that Filing Status is not a factor for Michigan "credits only" clients.

You must mark a Filing Status for every client, but it is not necessary to labor long or hard to get the correct Status.

**Enter all income on the tax return.**

Harvey's Social Security is entered on Federal Worksheet 1040 Wkt 1

**SPECIAL NOTE - all taxable income is entered on the Federal Tax return for Credits only clients.**

SS is not taxable until income exceeds \$25,000. Harvey's SS is not taxable.

However, **the SS is always entered on the Federal Wkt 1 form.**

Any non-taxable income is entered directly on the MI 1040 CR form for credits only clients. Study this form later so you are familiar with all the non-taxable types of income to be entered there.

**Harvey Johnston**

### STEP THREE

Go to MI 1040 Page 1. Select a School District Code for Harvey.

The third section on Page 1 begins with these words "**Credit-only e-filing - check here if....**"

Check the box. We refer to this as the "**Magic Box**". It is in the Taxwise Software only; it is not on the Michigan paper form. Checking the "Magic Box" blanks page 1 and 2 of the MI 1040 and tells the software - "Do not efile the Federal or State returns; ONLY file the 2 Michigan Credit forms".

Also click the "Unlinked" button on MI 1040 page 2. It is located in the section with "Do you want to electronically file this return?"

### STEP FOUR

Go to MI CR - Page 3 and enter Harvey's rent information on Line 52 – A.

You ask Harvey if he had a car last year and if he paid for car insurance. His answer is "No".

Look at Line 44 on page 2 of MI CR to see if there is a Credit. YES, there is.

### STEP FIVE

(Note: Heat Credit would be completed for Harvey even if no Rent Credit was available. **Always** complete the Heat Credit form.)

Go to page 1 of MI CR 7

Starting after line 6:

Answer the "Do you own or rent your home?" question - "Yes" for **Harvey**

7 - Read carefully and answer "Yes" for Harvey.

8 - Harvey answers "No".

9 - Provide the correct answer for Harvey.

10 - Fills in automatically.

11 – Since line 7 is a "Yes", **11 is left blank.**

Harvey's Heat Credit will show on line 44, page 2 of MI CR 7

OPTIONAL - Harvey's information now appears on **MI 8453** - you can easily see everything there on one page.

### STEP SIX

IF A CREDITS ONLY CLIENT IS HAVING **DIRECT DEPOSIT**:

Enter the bank information **ONLY on page 2 of MI 1040 in the Direct Deposit section.**

(TRUE: MI 1040 page 2 is NOT being e-filed. However, that is the place in the software where "credits only" clients have their Direct Deposit information entered.)

**Do NOT enter any bank information on the Main Info Sheet for "credits only" clients.**

HARVEY IS NOT DOING DIRECT DEPOSIT, THEREFORE CHECK THE THIRD ITEM – "check by mail".

### RUN DIAGNOSTICS

After diagnostics, you would call for a Quality Review.

After the return clears the Quality Review, you would print the return.

## Your Second Michigan Credits Starter Exercise

Reminder: Michigan Property Tax credit for home owners is calculated on "assessed" not "paid" for the tax year.

**THE CLIENT**

**Helen Lane** provides you the following information:

|  |                               |                    |
|--|-------------------------------|--------------------|
| Social Security Number - 552-XX-YYYY                   |                               |                    |
| Address:   | 55498 Old Country Road        |                    |
|  | Your City                     |                    |
| Birthdate  | 2/14/1981                     |                    |
| 517 888 -3210  |                               |                    |
| Filing Status: Divorced                                |                               |                    |
| Income - Supplemental Security Income \$ 748 per month |                               |                    |
|  | \$ 42 every 3 months from DHS |                    |
| Homeowner Taxable Value                                | \$55,075                      |                    |
|  | Summer Taxes \$342            | Winter Taxes \$690 |
| Heat Expense - \$992                                   |                               |                    |

**STEP ONE**

You interview Helen and determine the following to be true:

- The client has no taxable income. (Or taxable income below the filing requirement.)
- The client cannot file for any Federal Credits
- The client is the homeowner. (And therefore obligated for the assessed property taxes.)
- She is in fact, a Michigan "credits only" client.

**STEP TWO**

Complete the Main Info Page

ALL SSI clients are considered Disabled. List this as her occupation and check the disabled box in the "Taxpayer Information" section on the Main Info.

Choose a Filing Status for Helen. You must mark a Filing Status for every client, but it is not necessary to labor long or hard to get the correct status for a Michigan "credits only" client.

Enter all income on the tax return. Any non-taxable income is entered directly on the MI CR form. Helen's SSI can go on Line 25 of MI CR page 1. On the "Describe" line under line 25, type "SSI".

**Put the \$42 X 4 on line 27....this is critical to enter correctly. Ask every disabled client if they get \$ 42 every 3 months.**

**STEP THREE**

Go to MI 1040 Page 1. Select a School District Code for Helen.

The third section on Page 1 begins with these words "**Credit-only e-filing - check here if....**" Check the box. We refer to this as the "**Magic Box**". It is in the Taxwise Software only, it is not on the Michigan paper form. Checking the "Magic Box" blanks page 1 and 2 of the MI 1040 and tells the software - "Do not efile the Federal or State returns, ONLY efile the 2 Michigan Credit forms".

Then **on Line 9 b**, the blank after "...and permanently disabled" should be red. It is red due to you checking "disabled" on the Main Info. Put a "1" in the blank so Helen is shown as Disabled on the Michigan Form. No figures show in the right hand column....this is a "Credits Only" client and you have checked the Magic Box above. The Michigan Return is blank and will not be filed for Helen.

Also click the "Unlinked" button on MI 1040 page 2. It is located in the section with "Do you want to electronically file this return?"

**STEP FOUR**

**Go to MI CR page 1**

Line 9 - enter Helen's Taxable Value of \$55,075

UNDER Line 10 - combine Summer Taxes - \$342 - and Winter Taxes - \$690 - and enter the total.

Ask Helen if she had a car last year and if she paid for car insurance. **She did, so go MI CR, page 2, Line 31.**

**SCRATCH PAD**

Put the cursor on the line. Click on the gray arrow. Click on "Link to another form" or press "F9".  
Select new form - Scratch Pad.  
Enter Health Insurance expense on the Scratch Pad, Including Car Medical. Your instructor will provide the amount used in your area.

Look at Line 44 on page 2 of MI CR to see if there is a credit. YES, there is.

**STEP FIVE**

(Note: Heat Credit would be completed for Helen even if no Rent Credit was available. Always complete the Heat Credit form.)

Go to page 1 of MI CR 7

Starting after line 6:

Answer the "Do you own or rent your home?" question - "Yes" for Helen.

7 - Read carefully and answer "No" for Helen.

8 - Helen answers "No".

9 - Provide the correct answer for Helen.

10 - Fills in automatically.

11 - Since line 7 was answered "No", 11 must have an amount entered. Helen's heat expense was \$992.

Helen's Heat Credit will show on line 44, page 2 of MI CR 7

OPTIONAL - Helen's information now appears on MI 8453 - you can easily see everything there on one page.

**STEP SIX**

IF A CREDITS ONLY CLIENT IS HAVING DIRECT DEPOSIT:

Enter the bank information ONLY on page 2 of MI 1040 in the Direct Deposit section.

TRUE: MI 1040 page 2 is NOT being e-filed. However, that is the place in the software where credits only clients have their Direct Deposit information entered.

Do NOT enter any bank information on the Main Info Sheet for "credits only" clients.

HELEN IS NOT DOING DIRECT DEPOSIT, THEREFORE CHECK THE THIRD ITEM - "check by mail".

**RUN DIAGNOSTICS**

After diagnostics, you would call for a Quality Review.

After the return clears the Quality Review, you would print the return.

Your Third Michigan Credits Starter Exercise

Reminder: Michigan Property Tax credit for home owners is calculated on "assessed" not "paid" for the tax year.

**THE CLIENT**

**Bob Evans** provides you the following information:

Social Security Number - 553-XX-YYYY  
 Address: 436 Farming Lane  
                   Your City  
 Birthdate 4/1/1950  
 517 333-3210  
 Filing Status: Single

|                            |                 |
|----------------------------|-----------------|
| Income - Social Security   | \$ 13,520       |
| <b>Medicare Premium **</b> | <b>\$ 1,259</b> |

Homeowner - Taxable Value \$32,500  
 Summer Taxes \$445      Winter Taxes \$897

Heat Expense - \$1445

**STEP ONE**

- You interview Bob and determine the following to be true:
- The client has no taxable income. (Or taxable income below the filing requirement.)
  - The client cannot file for any Federal Credits
  - The client is the homeowner. (And therefore obligated for the taxes.)
  - He is in fact, a Michigan credits only" client.

**STEP TWO**

Complete the Main Info Page.

Choose a Filing Status for Bob. You must mark a Filing Status for every client, but it is not necessary to labor long or hard to get the correct status for a Michigan "credits only" client.

Since Bob is 63 years old and drawing Social Security, you must ask him if he is Disabled or Retired. Clients under 62 drawing SS, will usually be Disabled. However, they could be drawing death benefits, and not Disabled. **BOB TELLS YOU HE IS NOT DISABLED, HE IS RETIRED.**

- Enter all income on the tax return.
- Bob's only income is SS - goes on Federal Form 1040 Wkt 1. Even though this is a Michigan "credits only" client, all taxable or possibly taxable income goes on the Federal forms.
  - **Bob's Medicare Premiums \*\*** are also entered on 1040 Wkt 1.

**STEP THREE**

Go to MI 1040 Page 1.                      Select a School District Code for Bob.

The third section begins with these words "**Credit-only e-filing-check here if....**". Check the box. We refer to this as the "Magic Box". It is in the Taxwise Software only - it is not on the Michigan paper form. Checking the "Magic Box" blanks page 1 and 2 of the MI 1040 and tells the software - "Do not e-file the Federal or State returns; ONLY efile the 2 Michigan Credit forms.

Also click the "Unlinked" button on MI 1040 page 2 It is located in the section with "Do you want to electronically file this return?"

**STEP FOUR**

Go to MI CR page 1

Line 9 - enter the Taxable Value - \$32,500

Bob tells you he paid only his summer taxes last year. (That is OK. We enter **assessed or levied, not paid!!!**)

UNDER Line 10 - enter the correct amount. Read the line on the form.

**STEP FIVE**

Go to page 1 of MI CR 7

Starting after line 6:

Answer the "Do you own or rent your home?" question.

7 - Read carefully and answer.

8 - No

9 - Answer

10 - Fills in automatically.

11 - Required. \$1445

**STEP SIX**

Bob wants his refund Direct Deposited in his bank checking account

Enter the bank information ONLY on **page 2 of MI 1040** in the Direct Deposit section. Check the second button – “deposited into a different account”. You must enter the bank information twice.

Routing Number – **123321555**

Account number - **555123321**

TRUE: MI 1040 page 2 is NOT being e-filed. However, that is the place in the software where “credits only” clients have their Direct Deposit information entered.

Do NOT enter any bank information on the Main Info Sheet for "credits only" clients.

**RUN DIAGNOSTICS**

After diagnostics, you would call for a Quality Review.

After the return clears the Quality Review, you would print the return.

To save paper during the tax season, print only the necessary documents, not the entire file. Check with your instructor.