

# Michigan Judicial Institute/ Friend of the Court Bureau Webinar

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## **Sticky Situations: Tax Basics, Undocumented Income, and CALC Tricks Part II**

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# Sticky Situations: Tax Basics, Undocumented Income, and CALC Tricks-Part II

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## Session Topics

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Deep Dive on W2s

Tips with W9

When and How to Use  
the Child Tax Credit (and  
Child and Dependent  
Care Tax Credit) on CALC

Self-Employment  
Income Example on  
CALC

Other City/State Local  
Taxes and CALC

Theme: One-time and  
Irregular Income

2<sup>nd</sup> Jobs While Working  
Fulltime

# Deep Dive W2

Form **W-2** Wage and Tax Statement **2021** Department of the Treasury—Internal Revenue Service

- Box 5, not 1
  - MCSF 2.01(C)(1)
  - Pre-tax / Total Gross (i.e. retirement)
- Box 12
  - Healthcare and box 12
    - Code DD = Employer Share
      - If you see and don't have HC information already, this tells you it is there and you need to find it
    - Code W = HSA
      - MCSF 2.01(D)(2)
      - HSA's can roll-over and "build wealth"
        - Can later withdraw (for tax)
      - Breadcrumb for ordering health coverage/enforcing it
  - Retirement
    - Code D
    - Don't assume it's a mandatory payment

The paycheck shows \$0 Fed tax, should I override in CALC to include 10% tax?

- The Federal tax amount shown on a paycheck stub depends on how the person filled out the W-9.
- The new withholding tables are meant to pay tax but not overpay the tax, so it is normal to see \$0 tax even if someone filled out the W-9 correctly.
- Some taxpayers will try to adjust the W-9 to pay no tax during the year.
- Override on CALC only when you have an actual tax return that shows an annual tax amount that is different than the estimated amount.

# Child Tax Credit

<https://www.irs.gov/publications/p972>

Overview of CTC

<https://www.irs.gov/pub/irs-pdf/f8332.pdf>

Form used by the custodial parent to release, or revoke a prior release, a claim to exemption

Can be used for Current *and* Future years

Credit reduces a parent's federal income tax liability

\$2000 per child 16 years old and younger

Refundable up to \$1400 per qualifying child

In 2021:

The amounts were increased, made fully refundable, expanded the qualifying children,

Removed earning requirements, and made ½ the credit payable in advance

## Child Tax Credit

- Tax Exemption = impact to state tax liability
- Child Tax Credit = impact to federal income tax liability

**Deductions**

Tax Exemptions:  Filing Status: Select

Child Tax Credit Children Claimed Every Year:  Child Tax Credit Children Claimed Alternating Years:

City of Residence: Select

City of Employment: Select

Taxation Frequency: Month   Override All

Federal Income Tax: \$0.00  Override FICA Tax: \$0.00  Override

State Income Tax: \$0.00  Override

Resident City Tax: \$0.00  Override Non Resident City Tax: \$0.00  Override

# Child and Dependent Care Tax Credit

	2020 and 2022	2021
Child care Expense Amount	<b>\$3000 single</b> <b>\$6000 multiple</b>	\$8000 single \$16,000 multiple
Max Credit Rate	<b>35% up to</b> <b>\$15k income</b>	50% up to \$125k income
Refundable	<b>No</b>	Yes

Family | Financial | **Child Care** | Health

Time in Child Care per Year:  Child Name:   Potential Child Care (Months)

Child Care Expenses:

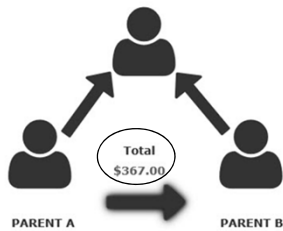
Children: KIDDO  
(Youngest → Oldest)  
Child Care Reimbursement End Date: 08/31/2026  
Override:

Child Care Subsidies:

**Child and Dependent Care Tax Credits:**  \$0.00    Override

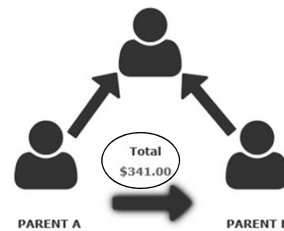
# Employer Income VS Self Employed Income

## EMPLOYER WAGES



	PARENT A
Total Monthly Gross Income	\$2,088.00
Filing Status	Single
Tax Exemptions	1
Child Tax Credit Children Claimed Every Year	
Child Tax Credit Children Claimed Alternating Years	
FICA Tax	<b>\$159.73</b>
Federal Tax	\$103.94
State Tax	\$71.92

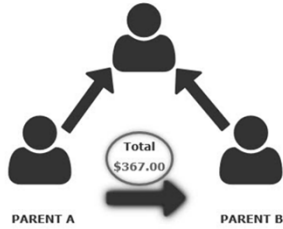
## SELF EMPLOYED WAGES



	PARENT A
Total Monthly Gross Income	\$2,088.00
Filing Status	Single
Tax Exemptions	1
Child Tax Credit Children Claimed Every Year	
Child Tax Credit Children Claimed Alternating Years	
FICA Tax	<b>\$295.03</b>
Federal Tax	\$103.94
State Tax	\$71.92

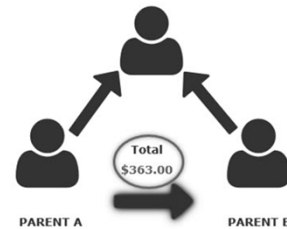
# State Income Tax rates

## MICHIGAN WAGES



PARENT A	
Total Monthly Gross Income	\$2,088.00
Filing Status	Single
Tax Exemptions	1
Child Tax Credit Children Claimed Every Year	
Child Tax Credit Children Claimed Alternating Years	
FICA Tax	\$159.73
Federal Tax	\$103.94
State Tax	\$71.92

## ILLINOIS WAGES



PARENT A	
Total Monthly Gross Income	\$2,088.00
Filing Status	Single
Tax Exemptions	1
Child Tax Credit Children Claimed Every Year	
Child Tax Credit Children Claimed Alternating Years	
FICA Tax	\$159.73
Federal Tax	\$103.94
State Tax	\$93.73

\*calculations shown are using 2020 State income tax rates and exemption amounts.

## One Time / Irregular Income

### Pension Withdrawals – Impact of Great Resignation

- Form 5329 – Additional Taxes on Qualified Plans
- IRS Guidance
- MCSF 2.01(C)(3) – distributed profits or payments from a ... pension or retirement account are considered income.
- (3)(b): But don't include the income if the contributions to that account were previously considered as the parent's income

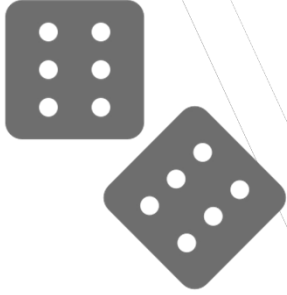
### Capital Gains – MCSF 2.01(C)(6)

- "Net capital gains are included as income."
- Sale of Home: Schedule D
- Form 8949

### Gifts – MCSF 2.05

- 2.05(A): Generally a one-time gift is not income
- 2.05(C): Income *may* include the value of gifts from relatives (other than a spouse), friends, or others *to the extent it*:
  - *Is significant and regularly reduces personal expenses OR*
  - *Replaces or supplements employment income.*
- No bright line rule. But what you see can matter.

## One Time / Irregular Income



- Gambling/Sports betting (W2 and 1099)
  - MCSF 2.01(C)(5): income includes “gambling or lottery winnings to the extent that they represent regular income or may be used to generate regular income.”
  - Deduct Losses?
  - Look for:
    - W-2G: issued immediately or by January 31 of the following year
    - 1099-MISC: issued by late February of the following year
    - Account Statements
- What are other examples?

Works full time  
and gets a 2<sup>nd</sup> job.  
Is it income?

- What about the Gig Economy?
- If count it, are we “making” them work 40+ hours just to pay the child support?
- MCSF provisions:
  - Don’t do when imputing (MCSF 2.01(G)(1))
  - MCSF 2.02(A) – where income varies, use 3 year average
  - 2.02(C) – evidence showing that OT, 2<sup>nd</sup> jobs, etc. will vary in the future may be considered
- Ultimately, no bright line rule.
  - Why are they doing it? Are they saving? Are they paying off expenses/debts? Is it to help pay a 2<sup>nd</sup> child support order?
  - Case by case decisions where discretion will control.
  - Where MCSF has room for discussion/grey areas: Have the conversations with your Bench – know what the expectation is. Saves time, objections, and costs.

## Questions and Contact

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