Attachment 7

2014 Michigan Corporate Income Tax: Unitary Relationships with Flow-Through Entities

(To report flow-through entities that are not unitary with the taxpayer, see Form 4898)

Issued under authority of Public Act 38 of 2011.

A Corporate Income Tax (CIT) taxpayer is unitary with a flow-through entity if the CIT taxpayer owns or controls, directly or indirectly, more than 50% of the voting interests of the flow-through entity, and the parties have business activities that satisfy either a flow of value test or a business integration test. Unitary Business Groups, see instructions.

Taxpayer Name (If Unitary Business Group, Name of Designated Member)	Federal Employer Identification Number (FEIN)

A Identifying Number	B Flow-Through Entity Name	C FEIN	D Check (X) if Using a Special Sourcing Formula for Transportation Services	E % of this Entity Owned by the Taxpayer

Continue below using the same Identifying Number references from Column A in Column F.

F Identifying Number	G Michigan Sales	H Intercompany Eliminations from Michigan Sales	I Michigan Sales After Eliminations (Subtract Column H from Column G)	J Proportionate Michigan Sales (Multiply Column I by Percentage from Column E; See Instructions)

Continue below using the same Identifying Number references from Column A and Column F in Column K.

K Identifying Number	L Total Sales	M Intercompany Eliminations from Total Sales	N Total Sales After Eliminations (Subtract Column M from Column L)	O Proportionate Total Sales (Multiply Column N by Percentage from Column E; see instructions)

If more space is needed, include additional copies of Form 4900. Repeat the taxpayer name and FEIN at the top of every copy.

Instructions for Form 4900
Michigan Corporate Income Tax:
Unitary Relationships with Flow-Through Entities

Purpose

To assist in calculating the apportionment factor of a taxpayer that is unitary with one or more flow-through entities.

General Instructions

This form is intended to only be used by a Corporate Income Tax (CIT) taxpayer that is unitary with one or more flow-through entities. Included in this form will be flow-through entities that are unitary with the taxpayer and whose tax year ends with or within the tax year included on the taxpayer's *CIT Annual Return* (Form 4891).

A flow-through entity is an entity that, for the applicable tax year, is treated as a subchapter S Corporation under section 1362(a) of the internal revenue code, a general partnership, a trust, a limited partnership, a limited liability partnership, or a limited liability company that is not taxed as a C Corporation for federal income tax purposes.

A taxpayer is unitary with a flow-through entity if the taxpayer:

- Owns or controls, directly or indirectly, more than 50% of the ownership interests with voting rights (or ownership interests that confer comparable rights to voting rights) of the flow-through entity; AND
- The taxpayer and flow-through entity have activities or operations which result in a flow of value between the taxpayer and the flow-through entity, or between the flow-through entity and another flow-through entity unitary with the taxpayer, or has business activities or operations that are integrated with, are dependant upon, or contribute to each other.

The determination of whether a taxpayer is unitary with a flow-through entity is made at the taxpayer level. If the taxpayer at issue is a Unitary Business Group (UBG), the ownership requirement will be made at the UBG level. Thus, if the combined ownership of the flow-through entity by the UBG is greater than 50%, then the ownership requirement will be satisfied.

NOTE: PA 266 of 2013 authorizes an affiliated group election that applies an alternate test for finding a unitary relationship between corporations. This act **DID NOT** create a corresponding "affiliated group" test for finding a unitary relationship between a corporation and an FTE. The existence of a unitary relationship between a corporation and an FTE is still based exclusively on the traditional two-part test described above.

A UBG is a group of United States C Corporations, insurance companies, and financial institutions, other than a foreign operating entity, that satisfies the control test and relationship test. If an Affiliated Group Election is made (see instructions for Form 4891), the UBG also includes all members of the affiliated group, as defined in IRC 1504 except that the group includes only US persons (no foreign persons or foreign operating entities) that are corporations, financial institutions or insurance companies that satisfy the control test and have made the election to file as a UBG. Once the election is made, the Affiliated Group is treated as a UBG for all purposes.

For more information regarding the control and relationship test, see the Treasury Web site at **www.michigan.gov/taxes** and go to the "Withholding" section.

If the taxpayer is a UBG, fill out this form at the group level. Specifically, as noted in the Column by Column Instructions, columns E must be filled out using data from the group as a whole.

To determine whether the taxpayer and the flow-through entity satisfy the second requirement to be unitary with one another – that they satisfy either the Flow-of-Value or Integration Test – apply the same concepts as used when determining whether a UBG satisfies the Relationship Test as explained on the Treasury Web site at **www.michigan.gov/taxes**.

NOTE: A flow-through entity owned directly or indirectly by a taxpayer may or may not be unitary with that taxpayer. This form asks for information only on the flow-through entities that **are** unitary with the taxpayer. For those flow-through entities that are not unitary with the taxpayer, use the *Non-Unitary Relationships with Flow-Through Entities* (Form 4898).

Column-by-Column Instructions

Columns not listed are explained on the form.

Name and Account Number: Enter the name and Federal Employer Identification Number (FEIN) of the taxpayer as reported on page 1 of Form 4891.

<u>**UBGs:**</u> Complete one Form 4900 for the entire group, and use multiple copies of the form if reporting information on more flow-through entities than space allows. Enter the Designated Member name in the Taxpayer Name field and the Designated Member's Federal Employer Identification Number in the FEIN box.

Column A: In Column A, assign a number (beginning with 1 and numbering sequentially) to all flow-through entities that are unitary with the taxpayer. This same number must also be used in Columns F and K when referencing the same flow-through entity. (If using multiple copies of the form the subsequent forms numbering should start with the next sequential number from the previous completed form)

Columns B and C: Identify each flow-through entity by name and FEIN.

Column D: Check this box if the flow-through entity has receipts from transportation services. To calculate Sales from Transportation Services, see the instructions for Columns G and L and the table in the "Sourcing of Sales to Michigan" section of Form 4891.

Column E: Enter on this line the percentage of this flow-through entity that is owned by the taxpayer. Percentages should be carried out four digits to the right of the decimal point. For example, if the taxpayer owns 65% of this flow-through entity, enter "65.0000" on the appropriate line in this column. If percentage of ownership changed during the taxpayer's tax year, enter an average ownership percentage, weighted by the amount of time each particular percentage was held during the tax year.

For example: Unitary group ABC consists of 3 C-corporations: Corporation 1, Corporation 2, and Corporation 3. Assume that the group is unitary with 3 other flow-through entities: FTE-A, FTE-B, and FTE-C. Corporation 1 owns 40% of FTE-A; Corporation 2 owns 15% of FTE-A, and 35% of FTE-B; and Corporation 3 owns 45% of FTE-B. FTE-C is owned by FTE-A (50%) and by FTE-B (30%). Thus, on column E, the group will enter "55.0000" for FTE-A (40% from Corporation A + 15% from Corporation B); "80.0000" for FTE-B (35% from Corporation 2 + 45% from Corporation 3); and "53.0000" for FTE-C (50% * 55% from Corporation 1 and Corporation 2 + 30% * 80% from Corporation 2 and Corporation 3).

UBGs: Enter on this line the percentage of this flow-through entity that is owned by the entire UBG. For example, if the UBG consists of three C corporation members, each of which owns 20% of this flow-through entity, the UBG owns 60% of this flow-through entity. If the UBG is unitary with this flow-through entity, enter "60.0000" on the corresponding line in this column.

Column F: Enter the same Identifying Number in Column F that was used for the corresponding flow-through entity in Column A.

Column G: Enter the Michigan sales that are directly attributable to the flow-through entity.

For a Michigan based flow-through entity, all sales are Michigan sales unless the flow-through entity is subject to tax in another state or foreign country. A flow-through entity is subject to a tax in another state or foreign country if the flow-through entity is subject to a business privilege tax, a net income tax, a franchise tax measured by net income, a franchise tax for the privilege of doing business, a corporate stock tax, or if the state or foreign country has jurisdiction to subject the flow-through entity to one or more of the above listed taxes.

Sale or Sales means the amounts received by the flow-through entity as consideration from the following:

- The transfer of title to, or possession of, property that is stock in trade or other property of a kind which would properly be included in the inventory of the flow-through entity if on hand at the close of the tax period, or property held by the flow-through entity primarily for sale to customers in the ordinary course of its trade or business. For intangible property, the amounts received will be limited to any gain received from the disposition of that property.
- Performance of services which constitute business activities.
- The rental, leasing, licensing, or use of tangible or intangible property, including interest, that constitutes business activity.
- Any combination of business activities described above.

For flow-through entities not engaged in any other business activities, sales include interest, dividends, and other income from investment assets and activities as well as from trading assets and activities.

Complete the Apportionment Calculation using amounts for the flow-through entity's business activity only. Do not include amounts received from a profits interest in a Partnership, S Corporation, or LLC.

Use the information in the "Sourcing of Sales to Michigan" section in Form 4890 to determine Michigan sales.

For transportation services, which should generally source sales based on revenue miles, enter on this line the flow-through entity's total sales multiplied by the ratio of Michigan revenue miles over revenue miles everywhere as provided in the "Sourcing of Sales to Michigan" chart located in Form 4890. *Revenue mile* means the transportation for consideration of one net ton in weight or one passenger the distance of one mile.

NOTE: Only transportation services are sourced using revenue miles. To the extent the taxpayer has business activities or revenue streams not from transportation services, those receipts should be apportioned accordingly.

Column H: Enter on this line the Michigan sales made from the flow-through entity to the taxpayer and Michigan sales made by this flow-through entity to another flow-through entity that is unitary with the taxpayer and is included on this form.

UBGs: Elimination, where required, applies to sales from the flow-through entity to any member of the UBG as well as sales from the flow-through entity to another flow-through entity that is unitary with the UBG. However, there is no elimination for sales made to an otherwise related entity if the related entity is excluded from the UBG. For example, consider a group with a U.S. parent, a U.S. subsidiary, and a foreign operating entity subsidiary that would otherwise be a UBG, but the foreign operating entity is excluded from the UBG by definition. The sales from a flow-through entity that is unitary with the UBG to that foreign operating entity may not be eliminated.

Column J: For each flow-through entity included on this form, multiply the amount entered in Column I by the percentage entered in Column E. Add up all of the entries in Column J and enter this amount on Line 9b of Form 4891. This is the amount of proportionate Michigan sales from flow-through entities that are unitary with the taxpayer that will be included in the taxpayer's apportionment calculation.

Column K: Enter the same Identifying Number in Column K that was used for the corresponding flow-through entity in Column A and Column F.

Column L: Enter the total sales that are directly attributable to the flow-through entity.

Transportation services that source sales based on revenue miles: Enter on this line the total sales that are directly attributable to the flow-through entity.

Column M: Enter on this line the total sales made from the flow-through entity to the taxpayer and total sales made by this flow-through entity to another flow-through entity that is unitary with the taxpayer and is included on this form.

UBGs: Elimination, where required, applies to sales from the flow-through entity to any member of the UBG as well as sales from the flow-through entity to another flow-through entity that is unitary with the UBG. However, there is no elimination for sales made to an otherwise related entity if the related entity is excluded from the UBG. For example, consider a group with a U.S. parent, a U.S. subsidiary, and a foreign operating entity subsidiary that would otherwise be a UBG, but the foreign operating entity is excluded from the UBG by definition. The sales from a flow-through entity that is unitary with the UBG to that foreign operating entity may not be eliminated.

Column O: For each flow-through entity included on this form, multiply the amount entered in Column N by the percentage entered in Column E. Add up all of the entries in Column O and enter this amount on Line 9e of Form 4891. This is the amount of proportionate total sales from flow-through entities that are unitary with the taxpayer that will be included in the taxpayer's apportionment calculation.