

Instructions for Form 807, Michigan Composite Individual Income Tax Return

Filing a Return

This form is used to report and pay individual income tax under Part 1 of Public Act 281 of 1967, as amended. It is a collective individual income tax filing of the members participating, filed by a flow-through entity (FTE) on behalf of those members. This return is not an entity-level filing for tax imposed on the FTE. An FTE is defined as an S corporation, a general partnership, 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.

An FTE is not *required* to file a *Composite Individual Income Tax Return* (Form 807). Members of an FTE may *elect* to have the FTE file a composite return in lieu of members filing *Individual Income Tax Returns* (Form MI-1040). **An FTE that does business in Michigan may file this return if it is filing on behalf of two or more nonresident individual or trust partners, shareholders, or members.** An FTE in a tiered structure may also be eligible to file a composite return (see below). An FTE may not file on behalf of a member that is a C corporation or a member that files federally as a C corporation.

The individual income tax filing obligation of a member is satisfied when the member participates in a composite filing so long as the member has no other Michigan-sourced income.

The filing entity and participating members must agree to comply with the participation and reporting to member requirements as described in these instructions.

Tiered Entities

An FTE is in a tiered structure if it has one or more members that are also FTEs. A tiered structure consists of a source FTE and one or more intermediate FTEs. In this arrangement, the intermediate FTE receives income from the source FTE and the income is passed through to the intermediate FTE's members. When a source FTE files a composite return on behalf of its nonresident individual and trust members, an intermediate FTE may elect to participate in the composite filing. An intermediate FTE may participate only to the extent that the ultimate members in its tiered structure are nonresident individuals or trusts. An intermediate FTE may not report its own directly-generated income (loss) on the source FTE's composite return.

Participation Requirements

The composite return is an individual income tax return and should be filed only on behalf of two or more nonresident members subject to Michigan individual income tax.

A member may not participate in this return if the member:

- Was a Michigan resident (full-year or part-year)
- Wishes to claim more than one Michigan exemption
- Is a C corporation or has elected to file federally as a C corporation
- Is an intermediate FTE and filer cannot identify the name, address, account number, distributive share of Michigan income and withholding paid on behalf of the ultimate

member(s) of the intermediate FTE. An intermediate FTE may not participate on behalf of an ultimate member that is a Michigan resident, a C corporation, or an entity that has elected to file federally as a C corporation.

A composite return cannot be filed if less than two of the members elect to participate in the composite filing.

Due Date of Return

The 2016 composite return is for filers whose tax year ends in 2016. If the FTE's tax year does not end in 2016, do not use this form. Use the appropriate year that corresponds to the year the ultimate owner will include the income in their federal individual income tax filing.

The composite return for any tax period ending in 2016 is due April 18, 2017. The return for any period ending in 2017 will be due April 17, 2018.

If the FTE cannot file by the due date, a request for an extension can be filed before the original due date. See "Requesting an Extension" on page 7.

Withholding Tax Payments

Effective July 1 2016, FTEs whose tax year begins after June 30, 2016 are no longer subject to FTW requirements. FTEs whose tax year begins before July 1, 2016 are still required to make withholding tax payments on behalf of all nonresident individual members (both participating and nonparticipating) regardless of whether the FTE will file a composite return.

The *Michigan Annual Flow-Through Reconciliation Return* (Form 4918) must be filed before any Michigan withholding can be claimed.

2017 Estimated Tax Payments

FTEs whose tax year begins July 1, 2016 or later are no longer subject to FTW requirements. FTEs may have to file estimated tax vouchers and pay estimated tax on behalf of each participant. Estimated vouchers and payments are required if the annual income tax liability for each participant is expected to exceed \$500 after exemptions and credits.

The estimated payments must be remitted with a *Fiduciary Voucher for Estimated Income Tax* (Form MI-1041ES) with the name of the FTE and the FTE's federal employer ID number (FEIN). Write "Composite return" on the top of the voucher. **Estimated payments should only be remitted for those members who will participate on the *Composite Return* (Form 807).**

FTEs using a calendar tax year must file vouchers and pay quarterly estimated tax by April 15, July 15, October 15, and January 15. FTEs that are not using a calendar year must file vouchers and pay quarterly estimated tax on the appropriate due dates that, in the FTE's fiscal year, correspond to the calendar year. Fiscal year filer due dates apply regardless of the tax years of the participants.

Reporting to Members

An FTE filing Form 807 must report to each nonresident member that participates in the composite filing the following information:

- FEIN of the FTE
- Tax year of the FTE
- That member's distributive share of business income as well as other taxable income of the FTE that has been allocated or apportioned to Michigan. This will be the amount from *Schedule A, Schedule of Participants*, Column 1.
- That member's share of tax liability on the composite return filed by the FTE (**not the amount withheld on behalf of the member**). The amount reported to a participant should be the amount from *Schedule A, Schedule of Participants*, Column 2.
- The FTE's sales that have been sourced to Michigan, and the FTE's total sales everywhere.
- That member's share of the personal exemption claimed as part of line 49 of the composite return.

The FTE may use any method to report the necessary information to its members so long as it conveys the information listed above. Treasury recommends that the FTE provide the information to its members as a supplemental attachment to the federal *Schedule K-1*, which will provide the participant with the information necessary to file a MI-1040 if the participant has other Michigan-sourced income.

For more information on reporting requirements to nonresident members, visit www.michigan.gov/ftw.

Requesting an Extension

The filer may request an extension of time to file by sending payment of the estimated annual liability not satisfied by withholding payments to Treasury with a copy of the *Application for Extension of Time to File Michigan Tax Returns* (Form 4). A separate Michigan extension must be filed even if the company files a federal extension. **An extension of time to file is NOT an extension of time to pay.**

When completing the extension form, check "Fiduciary Tax (includes Composite Filers)" in box 1, and use the company's name and Federal Employer Identification Number (FEIN) to ensure the payment is properly credited to the account.

When the composite return is filed, attach a copy of the extension application.

Amended Returns

To amend a current or prior year annual return, complete the Form 807 that is applicable for that year and write the word "AMENDED" across the top of the form. Include a statement to explain the reason(s) for the change. Include all schedules filed with the original return even if not amending that schedule. Enter the figures on the amended return as they should be. Do not include a copy of the original return with the amended return.

Signing Return/Correspondence

By signing Form 807, the signing partner or officer declares that the filer has power of attorney from each participant to file a composite return on his or her behalf. Treasury will mail refund checks, assessments and all correspondence to the filing company at the address indicated on the return. The filing company must agree to be responsible for the payment of any additional tax, interest and penalties as finally determined. Issues involving the tax liability reported on a composite return will be resolved with the filing company. In unusual circumstances, Treasury may contact the participants.

Attachments

Attach the following items to the composite return:

- A copy of the U.S. Form 1065 (5 pages) or U.S. Form 1120S (4 pages).
- A *Michigan Schedule of Apportionment* (Form MI-1040H).
- Completed *Schedule A, Schedule of Participants* and sub-schedules for participants that are other FTEs.
- Completed *Schedule B, Schedule of Nonparticipants*.
- Completed *Schedule C, Schedule of Michigan Resident Members*.
- A statement signed by an authorized officer or general partner certifying that each participant has been informed of the terms and conditions of this program.
- A copy of Form 4, if applicable.

Schedules

Schedule A, Schedule of Participants:

Complete this schedule for two or more participating nonresident members. Do not enter withholding that has been claimed on any other Michigan composite return or that has been refunded on an *Annual Flow-Through Withholding Reconciliation Return* (Form 4918).

For each participating intermediate FTE included on Schedule A, attach a separate sub-schedule identifying the members of that intermediate FTE whose distributive shares are included on Schedule A. Each intermediate FTE sub-schedule must include:

- The intermediate FTE's name and FEIN.
- The intermediate FTE's members (nonresident individuals and trusts) name, address, account number, distributive share of Michigan income, and share of withholding.

If the FTE filing this return does not know the above information down to the ultimate members of an intermediate FTE participant, then that intermediate FTE member may not participate in this composite filing.

Use additional copies of Schedule A as needed. Subtotal each schedule and include a grand total of Columns 1, 2, and 3b on the first page of the schedule. Carry the grand total of Column 1 to line 16. Column 2 should reconcile to line 21. Carry the grand total of line 3b to line 23.

Schedule B, Schedule of Nonparticipants: Complete this schedule for all members, other than Michigan residents, who did not participate on Schedule A. The income of

C corporation members reported here is not the amount used to compute CIT liability and is for reconciliation purposes of this return only. Use additional copies of Schedule B as needed. Subtotal each schedule and include a grand total of Columns 1 and 2b on the first page of the schedule. Carry the grand total of Column 1 to line 15.

Schedule C, Schedule of Michigan Resident Members: Complete this schedule for Michigan resident members only. A Michigan resident may not participate on Schedule A. Use additional copies of Schedule C as needed. Flow-through withholding (FTW) is not required for Michigan residents. Subtotal each schedule and include a grand total of Columns 1 and 2b on the first page of the schedule. Carry the grand total of Column 1 to line 14.

Tiered Structures: In some cases, the payer on Schedule A, B, or C might not be the entity filing this return; if the filer is part of a tiered structure and the source FTE paid withholding directly on behalf of a participating nonresident individual or trust by looking through the filer, enter the source FTE's FEIN as the payer.

If an intermediate FTE participates on Schedule A, enter only the portion of the intermediate FTE's distributive share of Michigan income, distributive share of tax, and withholding that is attributable to ultimate members that are nonresident individuals or trusts. If any of the intermediate FTE's income is attributable to non-participants or to Michigan residents, the remaining portion of the intermediate FTE's income, and withholding must be entered on Schedule B or Schedule C, respectively.

Line-by-Line Instructions

Lines not listed are explained on the form.

Line 10: Enter the apportionment percentage from Form MI-1040H. See MI-1040H instructions on determining the apportionment percentage and for information regarding income tax nexus standards.

Line 13: The amount on this line should equal the total of lines 14, 15 and 16.

Complete Schedule A, Schedule of Participants and if applicable, Schedule B, Schedule of Nonparticipants and Schedule C, Schedule of Michigan Resident Members before continuing to line 14. See instructions preceding the line-by-line instructions on page 7.

Line 14: Carry the total from Column 1 of the *Schedule C, Schedule of Michigan Resident Members* to this line.

Line 15: Carry the total from Column 1 of the *Schedule B, Schedule of Nonparticipants* to this line.

Line 16: Carry the total from Column 1 of the *Schedule A, Schedule of Participants* to this line.

Line 21: Multiply line 20 by the tax rate given on line 21. The product should reconcile to the grand total from Column 2 of the *Schedule A, Schedule of Participants*.

Line 23: Enter the total of FTW payments made on behalf of participating members from Column 3b of

the *Schedule A, Schedule of Participants*. Do not enter withholding that has been claimed on any other composite return or that has been refunded on Form 4918. **Note: Form 4918 is required and must be filed prior to claiming any Michigan withholding on Form 807.**

Line 24: Pay. If line 22 plus line 23 is less than line 21, enter the balance of the tax due. This is the tax owed with the return. Enter any applicable penalties and interest in the spaces provided. Add tax, penalty and interest together and enter the total on this line. Make the check payable to "State of Michigan." Write the **filing company's FEIN, "Composite Return," and the tax year** on the front of the check. To ensure accurate processing of the return, send one check for each return type. If balance due is less than \$1, no payment is required. To compute applicable penalty and interest visit www.michigan.gov/iit.

Line 27: Refund. If line 22 plus line 23 exceeds line 21, the overpayment will be refunded. Treasury will not refund amounts less than \$1.

Mail completed returns to:

Michigan Department of Treasury
P.O. Box 30058
Lansing, MI 48909

Additions

Lines 28 through 32: Enter income from lines 2, 3c, 5, 6a, 7, 8, 9a, 10 and 11 of U.S. Form *1065 Schedule K* and from lines 2, 3c, 4, 5a, 6, 7, 8a, 9 and 10 of U.S. Form *1120S Schedule K*. Guaranteed payments, income attributable to other Michigan fiduciaries or FTEs should be allocated to Michigan on lines 39 through 42. See instructions below.

Line 33: Enter the amounts of state and local income tax used to determine ordinary income on U.S. Form *1065*, line 22 or U.S. Form *1120S*, line 21.

Line 34: Enter other additions to income, such as gross interest and dividends from obligations or securities of states and their political subdivisions other than Michigan.

Subtractions

Note: Charitable contributions and other amounts reported as itemized deductions on U.S. Schedule A are not allowed as subtractions when determining Michigan taxable income.

Line 36: Enter income (loss) from other fiduciaries or other FTEs included in income. Losses must be added back. Attach a schedule showing the location of each company and amount of income attributable to each. Itemize the income by ordinary, interest, dividend, rental, etc.

Line 37: Enter amounts such as interest from U.S. obligations that are included in line 30a, and other deductions for AGI (above the line) that were not included in determining ordinary income. This includes section 179 depreciation and amounts included on line 12[c][2] of U.S. Form *1120S Schedule K* and on line 13[c][2] of U.S. Form *1065 Schedule K*. The domestic production activities deduction may be claimed. Calculate the qualified production activities income

(QPAI) at the entity level. Also include pension benefits paid to nonresident partners that were included in ordinary income but are excluded from Michigan tax under *section 114 of Title 4 of the U.S. Code*. Also, include income and related expenses from oil and gas and nonferrous metallic minerals extraction subject to Michigan severance tax. Attach a schedule of all subtractions.

Michigan Allocated Income or Loss

Line 39: Enter all guaranteed payments attributable to Michigan. This includes all payments to Michigan residents and payments to nonresidents for services performed in Michigan.

Line 40: Enter income or loss from other fiduciaries or other FTEs attributable to Michigan that have not been reported on another composite return. Attach a schedule showing the amount of income or loss attributable to each.

Line 41: Enter gains/losses from the sale of real or personal property located in Michigan not subject to apportionment.

Line 42: Enter any other income (loss) allocated to Michigan. Include any Michigan net operating loss deduction (NOLD). Attach schedules.

The NOLD may be taken only to the extent that it is attributable to the same participating members from the loss year, and in the same proportions of ownership.

Include any Michigan standard deduction as a negative number. The standard deduction of \$20,000 against taxable income before personal exemptions is only available to a taxpayer who was born during the period January 1, 1946 through January 1, 1950, and reached age 67 on or before December 31, 2016. A taxpayer eligible for the Michigan standard deduction may increase the \$20,000 deduction to \$35,000 if the taxpayer received retirement or pension benefits from employment with a governmental agency that was not covered by the federal Social Security Act.

If the taxable share of Michigan income of a participant eligible for the standard deduction is less than the allowable standard deduction, the excess standard deduction cannot be used to offset other members' taxable income. Attach a schedule identifying each member taking a standard deduction. Include their date of birth and the amount of standard deduction taken.

Nonresidents are not subject to tax on retirement and pension benefits, therefore, nonresidents may not deduct such benefits.

Exemption Allowance

Michigan's personal exemption allowance is prorated for all nonresident participants based on Michigan income to total income.

Participants' Total Income Worksheet

Column A refers to Distributive Income categories from Schedule K form(s). Columns B and C refer to lines on the U.S. Form 1065 *Schedule K* and U.S. Form 1120S *Schedule K*. Column D is the list of amounts that are added to arrive at participants' total income that is reported on Form 807, line 45.

A Distributive Income Categories	B U.S. Form 1065 <i>Schedule K</i>	C U.S. Form 1120S <i>Schedule K</i>	D Participants' Distribute Income Amounts
Ordinary income (loss) from trade or business activity	1	1	
Net income (loss) from rental real estate activity	2	2	
Net income (loss) from other rental activity	3c	3c	
Portfolio income (loss):			
Interest income	5	4	
Dividend income	6a	5a	
Royalty income	7	6	
Net short-term capital gain (loss)	8	7	
Net long-term capital gain (loss)	9a	8a	
Guaranteed payments	4		
Net gain (loss) under section 1231	10	9	
Other income (loss)	11	10	
TOTAL INCOME Add all amounts in Column D and carry total to Form 807, line 45.			

Line 45: Enter the participants' total income as determined using the Participants' Total Income Worksheet above.

Line 46: Compute the percentage of participants' income that is attributable to Michigan by dividing Michigan income (line 44) by total income (line 45). This figure may not exceed 100 percent.

Line 47: Multiply the percent of Michigan income to total income as determined on line 46 by \$4,000. The result is the maximum exemption allowance a participant may be eligible to claim.

Line 49: For each member included on *Schedule A, Schedule of Participants* include the lesser of:

- The amount on line 47, or
- That member's Distributed Share of Michigan Income from Column 1 of the *Schedule A, Schedule of Participants*.

Enter on line 49 the sum of the result above for all participants. The amount entered on line 49 may not exceed the product of lines 47 and 48.

SEP, SIMPLE or Qualified Plan Subtractions (PARTNERS ONLY)

Line 50: Figure the portions of Simplified Employee Pensions (SEP), Savings Incentive Match Plan for Employees (SIMPLE), or qualified plan deductions which are attributable to the participants. Attach a schedule showing calculations.

Forms

Michigan tax forms are available at www.michigan.gov/taxes