



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

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**NOTICE TO TAXPAYERS REGARDING FINANCIAL INSTITUTION UNITARY  
FILING AND REPORTING OF ELIMINATIONS FOR THE MBT AND CIT**

Franchise Tax and Eliminations

Under the Michigan Business Tax Act (MBTA) and part 2 of the Income Tax Act, more commonly known as the Corporate Income Tax (CIT), financial institutions pay a franchise tax calculated on a net capital tax base, which is equity capital minus certain subtractions. Financial institutions are required to compute equity capital in accordance with generally accepted accounting principles (GAAP). GAAP defines equity as “the residual interest in the assets of an entity that remains after deducting its liabilities.” Thus, under GAAP, if liabilities exceed assets, a financial institution does not have equity capital, but rather an equity deficit. If a financial institution does not have positive equity capital, then the equity deficit is presented as a zero on the Michigan Business Tax (MBT) and CIT returns.

A unitary business group is two or more persons that satisfy both a control test and one of two relationship tests. “Person” is defined to include financial institutions. Though a unitary business group is a single taxpayer that must file a combined return, each member of the group must calculate its tax base independent of the other members of the group and sum the results to reach the group level tax base. Thus, in the case of a unitary business group of financial institutions, each member of the group is required to calculate the net capital tax base in accordance with GAAP.

A member of a unitary business group of financial institutions may eliminate its investment in the positive equity capital of other members of the same group at the member level. Because each member of the group must compute the net capital tax base in accordance with GAAP, each member must present a positive or zero equity capital before eliminations. Eliminations occur to a member’s equity capital and are not separately presented on a member’s unitary return. This means that a member’s equity capital line may be a negative number after eliminations, even when the member has positive or zero equity capital prior to eliminations. For the 2008 through 2012 tax years under the MBTA, and the 2012 tax year under the CIT, the inability to separately present eliminations on the required annual returns results in incorrect computations of liability for some taxpayers.

Correct Reporting, Beginning October 1, 2013

Beginning October 1, 2013, *all affected taxpayers should file original or amended returns for all affected tax years.* Financial institution unitary business group taxpayers should file original and amended MBT and CIT returns to present a negative number on the equity capital line *if that negative number is a result of eliminations.* For each tax year, the financial institution unitary business group combined return is comprised of a lead form which compiles the data for the group, and unitary supporting schedules completed by each member of the group.

A member with *positive equity capital prior to* eliminations will present the combined total of equity capital minus eliminations on the equity capital line of the member's unitary supporting schedule. A member that has an *equity deficit prior to* eliminations should present only the elimination entry on the equity capital line of its unitary supporting schedule. Additionally, once each member presents equity capital minus eliminations in the positive equity capital of another member of the unitary business group then, for each year presented, the sum of equity capital minus eliminations for all members cannot be less than zero. In other words, the group must present positive equity capital (or zero) after eliminations.

A member of a financial institution unitary business group may present a negative number on the equity capital line and the net capital line of its unitary supporting schedule *after eliminations and deductions*, as follows:

**MBT:**

- 2008 tax year: Form 4580, *Part 3B: Member Data for Combined Return of Financial Institutions*, line 42 (equity capital) and line 52 (net capital for the current taxable year), may be negative.
- 2009-2012 tax years: Form 4752, *Part 2B: Member Data for Combined Return*, line 16 (equity capital) and line 25 (net capital for the current taxable year), may be negative.
- 2013 tax year and beyond: The Department is revising MBT forms and instructions for current and future tax years to accommodate the reporting of eliminations for unitary business groups of financial institutions. These forms will be posted on the Department's website when available.

**CIT:**

- 2012 tax year: Form 4910, *Part 2B: Member Data for Combined Return*, line 14 (equity capital) and line 22 (net capital for the current taxable year), may be negative.
- 2013 tax year and beyond: The Department is revising CIT forms and instructions for current and future tax years to accommodate the reporting of eliminations for unitary business groups of financial institutions. These forms will be posted on the Department's website when available.

If the affected taxpayer previously filed for a tax year, an amended return is necessary to correct for the reporting method addressed in this Notice in all cases where eliminations resulted in the presentation of negative numbers on a unitary business group financial institution annual return – even if resulting liability or refund is not altered.

Examples

**Example 1. All Members Solvent/Positive Equity Prior to Eliminations.** For this example, assume one year of existence for all members for simplicity and no additional deductions to the tax base. Member 3 is 100% owned by Member 2 and Member 2 is 100% owned by the designated member (DM). All three members of the UBG are solvent; in other words, each member has positive equity capital prior to eliminations. The group will present equity capital after eliminations on a member-by-member basis.

	<b>Consolidated Equity</b>	<b>Elimination</b>	<b>DM</b>	<b>M 2</b>	<b>M 3</b>
<b>Investment in Sub</b>		1,195	200	995	0
<b>Other Assets</b>	2,100		100	1,000	1,000
<b>Liabilities</b>	(1,890)		(90)	(1,795)	(5)
<b>Equity Capital per Member</b>	210	(1,195)	210	200	995

**Form 4752 (Tax Year 2011) – Designated Member**

	<b>A 2007</b>	<b>B 2008</b>	<b>C 2009</b>	<b>D 2010</b>	<b>E 2011</b>
16. Equity Capital ..... 16.					10
▼					
25. Net Capital for Current Taxable Year. Divide line 24 by number of tax years reported above ..... 25.					10

**Form 4752 (Tax Year 2011) – Member 2**

	<b>A 2007</b>	<b>B 2008</b>	<b>C 2009</b>	<b>D 2010</b>	<b>E 2011</b>
16. Equity Capital ..... 16.					(795)
▼					
25. Net Capital for Current Taxable Year. Divide line 24 by number of tax years reported above ..... 25.					(795)

**Form 4752 (Tax Year 2011) – Member 3**

	<b>A 2007</b>	<b>B 2008</b>	<b>C 2009</b>	<b>D 2010</b>	<b>E 2011</b>
16. Equity Capital ..... 16.					995
▼					
25. Net Capital for Current Taxable Year. Divide line 24 by number of tax years reported above ..... 25.					995

**Form 4590 (Tax Year 2011) – Designated Member**

20. Net Capital for Current Taxable Year. Divide line 19 by number of tax years reported above ..... 20.	210
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**Example 2. Member Insolvent/ Negative Equity Prior to Eliminations.** Again, assume one year of existence for all members and no additional deductions to the tax base. The DM is insolvent; meaning it has negative equity capital prior to eliminations. Any member that has an equity deficit *prior* to eliminations will present only the elimination entry on the equity capital line. Additionally, the UBG must present either positive equity capital or a zero at the group level.

	<b>Consolidated Equity</b>	<b>Elimination</b>	<b>DM</b>	<b>M 2</b>	<b>M 3</b>
<b>Investment in Sub</b>		1,195	200	995	0
<b>Other Assets</b>	2,100		100	1,000	1,000
<b>Liabilities</b>	(2,150)		(350)	(1,795)	(5)
<b>Equity Capital per Member</b>	(50)	(1,195)	(50)	200	995

**Form 4752 (Tax Year 2011) – Designated Member**

	<b>A 2007</b>	<b>B 2008</b>	<b>C 2009</b>	<b>D 2010</b>	<b>E 2011</b>
16. Equity Capital ..... 16.					(200)
					▼
25. Net Capital for Current Taxable Year. Divide line 24 by number of tax years reported above ..... 25.					(200)

**Form 4752 (Tax Year 2011) – Member 2**

	<b>A 2007</b>	<b>B 2008</b>	<b>C 2009</b>	<b>D 2010</b>	<b>E 2011</b>
16. Equity Capital ..... 16.					(795)
					▼
25. Net Capital for Current Taxable Year. Divide line 24 by number of tax years reported above ..... 25.					(795)

**Form 4752 (Tax Year 2011) – Member 3**

	<b>A 2007</b>	<b>B 2008</b>	<b>C 2009</b>	<b>D 2010</b>	<b>E 2011</b>
16. Equity Capital ..... 16.					995
					▼
25. Net Capital for Current Taxable Year. Divide line 24 by number of tax years reported above ..... 25.					995

**Form 4590 (Tax Year 2011) – Designated Member**

20. Net Capital for Current Taxable Year. Divide line 19 by number of tax years reported above ..... 20.		0
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**Example 3. DM and Member Insolvent/ Negative Equity Prior to Eliminations.** Again, assume one year of existence for all members and no additional deductions to the tax base. In this example the DM and Member 2 are insolvent. Because the DM's investment in Member 2 is actually a liability in Member 2, the DM will not have an elimination (i.e. an add-back of the liability). Any member that has an equity deficit *prior to* eliminations *and* an elimination of positive investment in the equity capital of another member will present the elimination entry on the equity capital line. Thus, the DM has zero equity capital and no elimination; Member 2 has zero equity capital but presents the elimination of its positive investment in the equity capital of Member 3; and, the group has zero equity capital.

	<b>Consolidated Equity</b>	<b>Elimination</b>	<b>DM</b>	<b>M 2</b>	<b>M 3</b>
<b>Investment in Sub</b>		995	(100)	995	0
<b>Other Assets</b>	2,100		100	1,000	1,000
<b>Liabilities</b>	(2,450)		(350)	(2,095)	(5)
<b>Equity Capital per Member</b>	(350)	(995)	(350)	(100)	995

**Form 4752 (Tax Year 2011) – Designated Member**

	<b>A 2007</b>	<b>B 2008</b>	<b>C 2009</b>	<b>D 2010</b>	<b>E 2011</b>
16. Equity Capital ..... 16.					0
					▼
25. Net Capital for Current Taxable Year. Divide line 24 by number of tax years reported above ..... 25.					0

**Form 4752 (Tax Year 2011) – Member 2**

	<b>A 2007</b>	<b>B 2008</b>	<b>C 2009</b>	<b>D 2010</b>	<b>E 2011</b>
16. Equity Capital ..... 16.					(995)
					▼
25. Net Capital for Current Taxable Year. Divide line 24 by number of tax years reported above ..... 25.					(995)

**Form 4752 (Tax Year 2011) – Member 3**

	<b>A 2007</b>	<b>B 2008</b>	<b>C 2009</b>	<b>D 2010</b>	<b>E 2011</b>
16. Equity Capital ..... 16.					995
					▼
25. Net Capital for Current Taxable Year. Divide line 24 by number of tax years reported above ..... 25.					995

**Form 4590 (Tax Year 2011) – Designated Member**

20. Net Capital for Current Taxable Year. Divide line 19 by number of tax years reported above ..... 20.	
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