

# Instructions for Form 807, Michigan Composite Individual Income Tax Return

## Definitions

The following are definitions for the purposes of this form.

**Flow-through entity (FTE):** An S corporation; partnership; limited partnership; limited liability partnership; or limited liability company that is not taxed as a C corporation for federal income tax purposes. FTE does not include a publicly traded partnership.

**Intermediate FTE:** An FTE in a tiered structure, that has an interest in another FTE.

**Member of an FTE:** An individual; estate; trust; or intermediate FTE.

**Nonresident member:** An individual who is not domiciled in this state; nonresident estate or trust; or intermediate FTE with a nonresident ultimate owner.

**Participant:** A nonresident member who has elected to participate in a composite return.

**Ultimate owner:** An individual, estate or trust that has an interest in an FTE or intermediate FTE.

## Filing a Return

A *Composite Individual Income Tax Return* (Form 807) is a collective individual income tax filing for two or more nonresident members filed by the FTE. This form is used to report and pay individual income tax under Part 1 of Public Act 281 of 1967, as amended. This return is not an entity-level filing for tax imposed on the FTE.

An FTE is not required to file Form 807. The filing FTE and participants must agree to comply with the provisions described in the sections “Filing and Participation Requirements” and “Reporting to Participants.” An FTE may choose to file Form 807 on behalf of its nonresident members who elect to participate. An intermediate FTE may also be eligible to file a composite return (see “Tiered Entities”).

Participation on a composite return will eliminate the need for an individual ultimate owner to file a *Michigan Individual Income Tax Return* (Form MI-1040) when the ultimate owner has no other Michigan-sourced income. If the composite return does not eliminate the requirement to file an MI-1040, the individual ultimate owner claims their share of tax paid on the composite return as withholding on the MI-1040. See “Composite Filer Participants” in the MI-1040 instruction book for more information.

## Tiered Entities

An FTE is part of 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. The intermediate FTE receives income from the source FTE and the income is passed through to the ultimate owner(s).

When a source FTE files a composite return, an intermediate FTE may elect to participate on behalf of its nonresident members. The intermediate FTE may not participate in the composite return if the composite filer cannot identify the intermediate FTE’s participating ultimate owner(s). A C corporation or an entity that files federally as a C corporation is not eligible to participate in the composite

return.

An intermediate FTE that generated its own income or loss and has two or more nonresident members may file its own composite return even if it participated on another composite return. If an intermediate FTE participated on another FTE’s composite return, it should not include any income or tax paid on its behalf with the other FTE’s composite return.

For each participating intermediate FTE include a Tiered Structure Schedule from the source FTE to the ultimate owner, with the following:

- Details for each tier of the tiered structure:
  - FTE name, FEIN and ownership percentage for each tier
- Details for each participating ultimate owner:
  - Name, address, account number, distributive share of Michigan income, tax and ownership percentage

## Filing and Participation Requirements

Two or more participating nonresident members are required for an FTE to file a composite return. An intermediate FTE may only participate in a composite return if the filing FTE is able to include, with the composite return, the Tiered Structure Schedule which provides the details for each tier from the source FTE to the ultimate owner, including the intermediate FTE’s participating ultimate owner’s name, address, account number, distributive share of Michigan income and tax (see “Tiered Entities”).

All of the following conditions must apply to the nonresident ultimate owner for participation in a composite return. The nonresident ultimate owner:

- Is subject to Michigan individual income tax
- Was not a Michigan resident (full-year or part-year)
- Agrees to claim only one Michigan exemption
- Does not have a federal excess business loss limitation
- Is not a C corporation or has not elected to file federally as C corporation.

## Due Date of Return

The 2019 composite return is for filers whose tax year ends in 2019. If the FTE’s tax year does not end in 2019, 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 2019 is due April 15, 2020. The return for any period ending in 2020 will be due April 15, 2021.

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”.

## Requesting an Extension

The filer may request an extension of time to file by filing an *Application for Extension of Time to File Michigan Tax Returns* (Form 4) on or before the original due date of the composite return. The remaining estimated annual tax liability that has not been satisfied by estimated payments must be

remitted with Form 4. A Michigan extension, Form 4, must be filed even if the FTE files a federal extension. **An extension of time to file is NOT an extension of time to pay.**

When completing Form 4, line 1, check “Fiduciary Tax (includes Composite Filers)” and use the filing FTE’s name and FEIN to ensure the payment is properly credited to the filing FTE’s account. When the composite return is filed, include a copy of Form 4.

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### Signing Return/Correspondence

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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 the participant’s behalf. Treasury will mail refund checks, assessments and all correspondence to the filer at the address indicated on the return. The filer must agree to be responsible for the payment of any additional tax, interest and penalties as finally determined. **Any issues that arise as a result of the filed composite return will be resolved with the filer.** However, Treasury may find it necessary to contact the participants.

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### Required Documentation

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Include **only** the following items, as applicable, with the composite return:

- Copy of U.S. Form 1065 (5 pages) or U.S. Form 1120S (5 pages)
- *Michigan Schedule of Apportionment* (Form MI-1040H)
- Completed *Schedule A, Schedule of Participants*
  - Tiered Structure Schedule (see “Tiered Entities”)
- Completed *Schedule B, Schedule of Nonparticipants*
- Completed *Schedule C, Schedule of Michigan Residents*
- Statement signed by an authorized officer or general partner certifying that each participant has been informed of the terms and conditions of this program of participation.
- A copy of Form 4.

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### Reporting to Participants

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An FTE filing Form 807 must report the following information to each participant on the composite return:

- FEIN of the FTE
- Tax year of the FTE
- The participant’s distributive share of income allocated or apportioned to Michigan from *Schedule A, Schedule of Participants*, Column 2.
- The participant’s share of tax liability on the composite return filed by the FTE from *Schedule A, Schedule of Participants*, Column 3.
- The FTE’s Michigan sales and the FTE’s total sales everywhere
- The participant’s prorated exemption allowance as computed on line 47 of the composite return.

The FTE may use any method to report the necessary information to the participants so long as it conveys the

information listed above. Treasury recommends that the FTE provides the information to the participants as a supplemental attachment to their federal *Schedule K-1*, which provides the participant with the information necessary to file an MI-1040 if the ultimate owner has other Michigan-sourced income.

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### 2020 Estimated Tax Payments

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Estimated income tax payments must be remitted with an *Estimated Income Tax Voucher for Fiduciary and Composite Filers* (Form MI-1041ES). For each quarter, file one Form MI-1041ES with the quarterly estimated payment for all participants whose share of annual income tax liability is expected to exceed \$500 after exemptions and credits. **Form MI-1041ES must be completed with the name and FEIN of the FTE that will claim the estimated payments on their composite return.** Do not submit estimated payments with Form MI-1041ES for members who are not participating in the composite return.

FTEs using a calendar tax year must remit quarterly estimated payments with Form MI-1041ES by April 15, 2020; June 15, 2020; September 15, 2020; and January 15, 2021. FTEs with a fiscal tax year must remit quarterly estimated payments with Form MI-1041ES using the due date that corresponds with its fiscal tax year end. The first estimated payment is due on the 15th day of the fourth month after the prior fiscal tax year ends. Quarterly estimated payment due dates for a fiscal tax year filer apply regardless of the participants’ filing tax year.

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### Amended Returns

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To amend, file a new Form 807 and check the Amended Return box at the top of page 1 of the form. Provide a statement to explain the reason(s) for amending. Include all applicable schedules and supporting documentation. It is not necessary to include a copy of the original return.

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### Schedules

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#### *Schedule A, Schedule of Participants:*

Complete this schedule for all participants. See “Filing and Participation Requirements” for additional information.

If an intermediate FTE is participating on the composite return, the filer must only report the income attributable to the participating ultimate owner(s) of that intermediate FTE on Schedule A. See “Tiered Entities” for information about the required Tiered Structure Schedule.

Complete additional copies of Schedule A as needed. Subtotal each schedule and include the grand totals of Columns 2 and 3 on the first page of the schedule. Carry the grand total of Column 2 to line 16. The grand total of Column 3 should reconcile to line 21.

#### *Schedule B, Schedule of Nonparticipants:*

Complete this schedule for all nonparticipants that are not Michigan residents. If intermediate FTEs are participating on the composite return, the filer must only report the income attributable to nonparticipants on Schedule B. If a C corporation or an entity that files federally as a C Corporation has an interest in the filing FTE, report the income here. Reporting this income is for reconciliation purposes only and is not used to compute a Corporate Income Tax (CIT) liability.

Complete additional copies of Schedule B as needed. Subtotal each schedule and include the grand total of Column 2 on the first page of the schedule. Carry the grand total of Column 2 to line 15.

### **Schedule C, Schedule of Michigan Residents:**

Complete this schedule for Michigan residents. A Michigan resident may not participate on a composite return. If intermediate FTEs are participating on the composite return, the filer must only report the income attributable to Michigan residents on Schedule C. Reporting this income is for reconciliation purposes only. Complete additional copies of Schedule C as needed. Subtotal each schedule and include the grand total of Column 2 on the first page of the schedule. Carry the grand total of Column 2 to line 14.

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### **Line-by-Line Instructions**

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*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 Residents before continuing to line 14.**

**Line 14:** Carry the total from Column 2 of the *Schedule C, Schedule of Michigan Residents* to this line.

**Line 15:** Carry the total from Column 2 of the *Schedule B, Schedule of Nonparticipants* to this line.

**Line 16:** Carry the total from Column 2 of the *Schedule A, Schedule of Participants* to this line.

**Line 21:** Multiply line 20 by the tax rate on line 21. The tax should reconcile to the grand total from Column 3 of the *Schedule A, Schedule of Participants*.

**Line 23:** This line is for amended returns only. Enter the refund and/or credit forward amount received on the original return as a negative number. Enter the amount paid with the original return as a positive number. Do not include any interest or penalty paid with the original return.

**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, remit payment for this return only. Estimated tax payments should be remitted separately with MI-1041ES vouchers.** If balance due is less than \$1, no payment is required. To compute applicable penalty and interest visit [www.michigan.gov/it](http://www.michigan.gov/it).

**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

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### **Additions**

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**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* or 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.

**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. **Include gross expenses from the production of Michigan oil and gas and nonferrous metallic minerals extraction subject to Michigan severance tax.** Adjustments for bonus depreciation are not required. **For purposes of individual income tax, Michigan treatment** of bonus depreciation conforms with federal law. If line 36 results in a net loss, enter here as a positive number.

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### **Subtractions**

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**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. Do not adjust for bonus depreciation.**

**Line 36:** Enter the net income or (loss) from other fiduciaries or other FTEs included in income. If line 36 results in a net loss, do not enter here but on line 34 as a positive number instead.

**Line 37:** Enter amounts, such as interest from U.S. obligations that are included in line 30a and other deductions used to compute AGI, that were not included in determining ordinary income. This includes section 179 depreciation and other deductions included line 11 and 12 of U.S. Form *1120S Schedule K* and on line 12 and 13 of U.S. Form *1065 Schedule K* to the extent reportable in determining AGI. Also include pension benefits paid to nonresident partners that are included in ordinary income but are excluded from Michigan tax under *section 114 of Title 4 of the U.S. Code*. **Also include gross income and related expenses from producing Michigan oil and gas and nonferrous metallic minerals extraction to the extent subject to Michigan severance tax and included in federal taxable income. Include a schedule of all subtractions.**

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### **Michigan Allocated Income or Loss**

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**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. Include a schedule showing the amount of income or (loss) attributable to each.

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

**Line 42:** Enter any other income or (loss) allocated to Michigan. Include any Michigan net operating loss (NOL) deduction. Include supporting documentation.

The NOL deduction may be taken only to the extent that it is attributable to the same **participants 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 **participant** who was born during the period January 1, 1946 through **December 31, 1952**, and reached age 67 on or before December 31, **2019**. A **participant** eligible for the Michigan standard deduction may increase the \$20,000 deduction to \$35,000 if the **participant** received retirement or pension benefits from employment with a governmental agency that was not covered by the federal Social Security Act.

A **participant who is eligible for the standard deduction may only use the standard deduction to offset their taxable share of Michigan income. Any remaining standard deduction cannot be used to offset another participant's share of Michigan taxable income.** Include a schedule identifying each **participant** taking a standard deduction. Include the **participant's** date of birth and the amount of standard deduction taken.

**Although participants may be eligible for a standard deduction, nonresidents are not subject to tax on retirement and pension benefits and therefore participants 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.

**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 **\$4,400 in 2019**. The result is the maximum exemption allowance a participant may be eligible to claim **on this form**.

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

**Line 49:** For each **participant** listed on *Schedule A, Schedule of Participants* determine the lesser of:

- The amount on line 47, or
- That **participant's** Distributed Share of Michigan Income from Column 2 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. Include a schedule showing calculations.

### Forms

Michigan tax forms are available at [www.michigan.gov/taxes](http://www.michigan.gov/taxes)