STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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# NOTICE TO TAXPAYERS REGARDING FIVE-YEAR AVERAGING CALCULATION OF NET EQUITY CAPITAL FOR FINANCIAL INSTITUTIONS COMBINING WITH OTHER FINANCIAL INSTITUTIONS (RESCIND MBT FAQ F5 AND CIT INSURANCE COMPANIES/FINANCIAL INSTITUTIONS FAQ 6)

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Financial institutions calculate their MBT and their CIT net capital tax base by averaging net capital over a five-year period (or the number of years in existence if fewer than five years).[1] When two or more financial institutions combine into one, the law requires the combined institution to be treated as if it had been a single financial institution for the entire tax year in which the combination occurs and for each tax year after the combination.[2] The treatment of entities in the years prior to the combination for purposes of calculating net capital during the five-year lookback period was previously interpreted to require that net capital for both the surviving and acquired entities for tax years prior to the year of combination should be included in the calculation of the tax base. This policy was reflected in MBT FAQ F5 and CIT Insurance Companies/Financial Institutions FAQ 6.

Upon further review of this policy, the Department now rescinds MBT FAQ F5 and CIT Insurance Companies/Financial Institutions FAQ 6. The Department will no longer calculate net capital for years prior to the combination year using both the surviving and acquired entities' net capital. When two or more financial institutions combine, only the surviving financial institution's net capital for the years prior to the combination is used to calculate the surviving entity's tax base. Thus, for the years prior to the combination, the surviving financial institution will use only its own books and records to compute the five-year look-back averaging calculation. In the year of the acquisition and for all years following the combination, the surviving financial institution will merge its books and records with those of the acquired financial institution and the combined books and records will be used to compute the net capital tax base.

The Department will give this change in policy full retroactive effect, and will apply it to all open tax years. Whether a period is open under the statute of limitations may depend on whether and when an audit of a taxpayer's books and records commenced.[3] If a taxpayer previously filed

[1] MCL 208.1265(2) and MCL 206.655(2).
[2] MCL 208.1265(4)(b).
[3] See MCL 205.27a(2) and (3) and LR 2015-2 [http://www.michigan.gov/documents/treasury/LR_2015-2_-__Administration_of_PA_3_491518_7.pdf](http://www.michigan.gov/documents/treasury/LR_2015-2_-__Administration_of_PA_3_491518_7.pdf)

a return under MBT FAQ F5 and the tax period remains open, the taxpayer may amend accordingly.