





## Instructions for Form 4898

# Corporate Income Tax: Non-Unitary Relationships with Flow-Through Entities

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### Purpose

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The purpose of this form is to gather information on the distributive share of flow-through income received throughout the tax year by taxpayers or members of a Unitary Business Group (UBG) from directly or indirectly owned flow-through entities (FTEs) that are not unitary with the taxpayer, where the flow-through income received is included in the taxpayers' or UBG member's federal taxable income figure.

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### General Information

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This form is intended to only be used for a Corporate Income Tax (CIT) taxpayer (or member of a UBG) to report the distributive income it received from its interests in FTEs that are not unitary with that taxpayer or UBG. This form must be filed by any taxpayer that has received a distributive share of income from an FTE that the taxpayer is not unitary with. If the taxpayer is a UBG, then each member of the UBG that has received a distributive share of income from an FTE that the UBG is not unitary with must file this form. If more space is needed, include additional copies of Form 4898 as needed. Repeat the taxpayer's and UBG member's name and Federal Employer Identification Number (FEIN) (if applicable) at the top of every copy of Form 4898.

*Flow-through entity* means 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 for the tax year is not taxed as a C corporation for federal income tax purposes.

An FTE is unitary with a taxpayer when that taxpayer owns or controls, directly or indirectly, more than 50 percent of the ownership interests with voting rights or ownership interests that confer comparable rights to voting rights of the FTE, and that has business activities or operations which result in a flow of value between the taxpayer and the FTE, or between the FTE and another FTE unitary with the taxpayer, or has business activities or operations that are integrated with, are dependent upon, or contribute to each other.

The determination of whether a taxpayer is unitary with an FTE is made at the taxpayer level. If the taxpayer at issue is a UBG, the ownership requirement will be made at the UBG level. So, if the combined ownership of the FTE by the UBG is greater than 50 percent, 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.

*Unitary Business Group* means a group of United States

persons that are C corporations, insurance companies, or financial institutions, other than a foreign operating entity, that satisfies the control test and one of two relationship tests. 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. See the General Instructions in the *CIT Forms and Instructions for Standard Taxpayers* (Form 4890) for more information on UBGs.

**NOTE:** An FTE owned directly or indirectly by a taxpayer or a member of a UBG may or may not be unitary with a taxpayer or UBG member. This form asks for information only on the flow-through entities that are NOT unitary with the taxpayer or UBG member. For those flow-through entities that are unitary with the taxpayer, use the *CIT Unitary Relationships with FTEs* (Form 4900).

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### Line-by-Line Instructions

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Lines not listed are explained on the form.

**Name and Account Number:** Enter name and account number as reported on page 1 of the *CIT Annual Return* (Form 4891).

**Unitary Business Groups (UBGs):** Complete one form for each member that is a C Corporation (including an entity taxed federally as such). Enter the Designated Member's (DM's) name and FEIN in the Taxpayer Name and FEIN fields and the name and FEIN of the member to whom the schedule applies on the line below.

**Column A and B:** Identify each FTE by name and FEIN.

**Column C:** Enter the total amount of distributive income received from the non-unitary FTE that is included in the taxpayer's or UBG member's federal taxable income. If the taxpayer or UBG member received a distributive loss from the non-unitary FTE that is included in its federal taxable income, enter that loss in this column as a negative. UBG members will enter the amount of distributive income that the member received from each non-unitary FTE. For each UBG member, the sum of all distributive share of flow-through income received and entered on column C shall equal the amount entered on line 32 of the *CIT Data on Unitary Business Group Members* (Form 4897).

**RECENT STATUTORY CHANGE:** Under PA 233 of 2013, if a FTE listed here has made a valid election to remain in the Michigan Business Tax for this filing period, and files a Michigan Business Tax (MBT) return for its tax year that ends with or within the tax year of the CIT taxpayer, distributive income allocated by that FTE to the corporate owner filing this return shall not be reported here or elsewhere on this CIT return.

**Tiered Entities:** In the event of a tiered entity, enter in this column the distributive share received from a non-unitary FTE in which the taxpayer has an indirect ownership interest. When computing the distributive share of income received from the non-unitary FTE in which the taxpayer has a direct ownership interest, only enter the direct income of that FTE. This is done by subtracting any distributive shares of income that this FTE received from another FTE.

**Example:** C-corporation 1 owns 50% of FTE B (FTE B) and FTE B owns 40% of FTE A (FTE A). FTE B received from FTE A a distributive share of income of \$20,000. C Corporation 1 received from FTE B a distributive share of income of \$100,000. On the line corresponding to FTE A, C Corporation 1 would enter \$10,000. This is the indirect distributive share that C Corporation 1 received from FTE A and is calculated by multiplying C Corporation 1's ownership interest in FTE B by the distributive share FTE B received from FTE A:

$$50\% \times \$20,000 = \$10,000$$

On the line corresponding to FTE B, C Corporation 1 would enter \$90,000. This is the distributive share C Corporation 1 received from FTE B less the distributive share C Corporation 1 received from FTE A:

$$\$100,000 - \$10,000 = \$90,000$$

**NOTE:** The sum of the amount in every line on column C (plus, in the case of a UBG, the sum of column C for all other UBG members that filed this form) should equal the amount reported on Form 4891, line 27.

**Column D:** Enter in this column the non-unitary FTE's apportionment percentage. Enter this amount as a percentage. The non-unitary FTE's apportionment percentage is the FTE's sales factor. The sales factor is a fraction, the numerator of which is the total sales of the FTE in this state during the tax year and the denominator of which is the total sales of the FTE everywhere during the tax year. For more information on what is a sale, see the instructions for Form 4891. Use the information in the "Sourcing of Sales to Michigan" section of Form 4890 to determine Michigan sales. Enter this amount as a percentage, carrying it out 4 digits to the right of the decimal point (i.e. 12.3456). **Do not enter a percent symbol (%).**

**Column E:** Enter the non-unitary flow-through distributive income after apportionment by multiplying the amount in column C by the apportionment percentage in column D for every FTE included on this form.

**RECENT STATUTORY CHANGE:** Under PA 233 of 2013, if any of the flow-through entities (FTE) listed on this form files a Michigan Business Tax (MBT) return for its tax year that ends with or within the tax year of the CIT taxpayer named above, leave Column E blank for that FTE.

**NOTE:** The sum of the amount in every line on column E (in the case of a UBG, the sum of column E for all UBG members that filed this form) should equal the amount reported on Form 4891, line 35.

***Include completed Form 4898 as part of the tax return filing.***