Instructions for Form 4917
Flow-Through Withholding (FTW) Quarterly Return

Purpose

Michigan Compiled Laws 206.703 requires flow-through entities to withhold Michigan income tax on certain members' distributive share of income. Flow-through entities remit withheld taxes using this form.

Overview of Flow-Through Withholding

What is the overall structure of the flow-through withholding process?

A flow-through entity that is subject to the withholding requirement (see below) must file quarterly returns and corresponding payments on this form. By the end of the second month after the flow-through entity's tax year end, the flow-through entity must file an Annual Withholding Reconciliation Return (Form 4918), which will reconcile the aggregate liabilities and payments from the quarterly returns.

The annual reconciliation return will provide the name and account number of each owner (partner, member, shareholder) and each owner's share of the withholding payments. The flow-through entity also will inform each of its owners of their share of the withholding paid, which they will claim on their corporate or individual income tax returns. The withholding information provided by the flow-through entity to its owners must be in writing, but there is no prescribed form or required format. Generally, the information should include the FEIN of the flow-through entity, the tax year and the amount withheld. The information should be provided by the flow-through entity to its owners either before or at the same time that the owners receive their Federal Schedule K-1s.

Who must pay flow-through withholding?

A flow-through entity that is an S corporation under IRC § 1362(a), a general partnership, a limited partnership, a limited liability partnership, or a limited liability company, that for the applicable tax year is not taxed as a C Corporation for federal income tax purposes, must pay withholding. Trusts are not flow-through entities for purposes of withholding and are not required to withhold on trust beneficiaries.

Who are members of a flow-through entity?

Members are the owners of a flow-through entity and may be S Corporation shareholders, general partners, limited partners, limited liability company members or limited liability partnership members.

Flow-through withholding on behalf of corporate members

A flow-through entity must withhold and pay Michigan Corporate Income Tax at the rate of 6 percent on the distributive shares of its members that are C Corporations or that are taxed as C Corporations for federal income tax purposes. Flow-through withholding for C Corporation members is not required if the annual Michigan business income of the flow-through entity is $200,000 or less. If the Michigan business income is $200,000 or less, then each C Corporation member must make estimated tax payments instead.

Flow-through withholding on behalf of non-resident individual members

A flow-through entity must withhold and pay Michigan individual income tax at the rate of 4.35 percent on the distributive shares of non-resident individual members. Flow-through withholding for non-resident individual members is required regardless of the entity's level of business income.

Flow-through withholding on behalf of other flow-through entities (tiered structures)

In general, if a flow-through entity (upper tier source flow-through) has members that are other flow-through entities (lower tier members), then the upper tier source flow-through must withhold on the distributive share of each lower tier member at the corporate income tax rate of 6 percent. However, the upper tier source flow-through may withhold at the individual income tax rate of 4.35 percent, instead of 6 percent, on any distributive share of income for which it is able to identify the ultimate taxpayer in the lowest tier as a non-resident individual. Finally, the upper tier source flow-through is not required to withhold if it is able to identify the ultimate taxpayer in the lowest tier as a resident individual.

A lower tier flow-through entity that has no business income sourced to Michigan, other than business income received from an upper tier flow-through, will not have to pay additional withholding and will be credited with any payments paid on its behalf by the upper tier source flow-through.

When the lower tier flow-through entity receives year-end information from the upper tier source entity about how much has been withheld on behalf of the lower tier entity's owners, it should forward that information to its owners for whom withholding has been paid. The name and FEIN of the upper tier entity also should be provided to the owners of the lower tier entity.

Publicly traded partnership, as defined under Internal Revenue Code (IRC) 7704(b).

Publicly traded partnerships are not required to withhold on behalf of their members.

Calculating Michigan flow-through business income

Business income of a flow-through entity

For corporate members, business income is federal taxable income calculated as if the following two provisions were not in effect: IRC § 168(k) "bonus depreciation" for certain property acquired after December 31, 2007, and IRC § 199 domestic production activity deduction.

For nonresident individual and trust members, no adjustments for "bonus depreciation" or the domestic production activity deduction are required when calculating the nonresident individual's or trust's share of distributive income.

Allocation

If all the sales of a flow-through entity are sourced to Michigan, then all of the business income is allocated to Michigan and subject to income tax withholding on behalf of all corporate members and all non-resident individual members. If the flow-through entity has sales outside of Michigan, then the flow-through entity's business income must be apportioned.

Apportionment for a flow-through entity that has individual members

Apportionment is based on the ratio of Michigan sales to sales everywhere of the flow-through entity. The sales factor is then applied to the flow-through entity's business income to determine the taxable Michigan business income. The 4.35 percent Individual Income Tax rate is then applied to obtain the income tax withholding due.

For individual income tax, sales include throw back sales and also include services based on cost of performance.

Apportionment for a flow-through entity with C Corporation members or lower tier flow-through entity members

Apportionment is based on the ratio of Michigan sales to sales everywhere of the flow-through entity. The sales factor is then applied to the flow-through entity's business income to determine the taxable Michigan portion of the business income. The corporate income tax rate of 6 percent is then applied to obtain the income tax withholding due unless the lowest tier member is known to be resident individual (no withholding) or a non-resident individual (4.35 percent).

Due Dates of Flow-Through Withholding Quarterly Return

Flow-though entities that are on a calendar year basis must withhold and file quarterly by April 15, July 15, October 15, and January 15. Flow-through entities that are not on a calendar year must withhold and file quarterly returns on the appropriate due dates which in the taxpayer's fiscal year correspond to the calendar year. Fiscal year filer due dates apply regardless of the tax years of the members.

Line-by-Line Instructions

Due Date: This quarterly return is due to the Department of Treasury (Treasury) by the 15th day after the end of the quarter reported on the return. If the 15th falls on a holiday or weekend, the due date is the first business day following the weekend or holiday. Enter the date in an MM-DD-YYYY format.

Quarter Ending Date: Enter the ending date of the quarter reported on this return. Enter the date in an MM-DD-YYYY format.

Street Address: The taxpayer's primary address in Treasury files is identified as the legal address and is used for all purposes and will not change unless the taxpayer files a *Notice of Change or Discontinuance* (Form 163). **Exception:** If mail sent to the legal address has been returned to Treasury by the United States Postal Service, Treasury will update the taxpayer's legal address with the address used on this line in the most recent tax return.

FEIN: Use the taxpayer's Federal Employer Identification Number (FEIN) or the Michigan Treasury (TR) assigned number. If the taxpayer does not have an FEIN or TR number, the taxpayer is encouraged to register online at **www.michigan.gov/businesstaxes**.

The Web site provides information on obtaining an FEIN. Taxpayers usually can obtain an FEIN from the IRS within 48 hours. Taxpayers registering with the State online usually receive an account number within seven days.

Returns received without a registered account number will not be processed until such time as a number is provided.

Organization Type Code: From the list at right, enter the business type code that accurately describes the flow-through entity filing this return.

Line 1: Enter the amount of FTW attributable to non-resident individual members. This includes members owning an interest in the filing entity directly or, to the extent known, indirectly through other flow-through entities.

Line 2: Enter the amount of FTW attributable to C Corporations, or any entity electing to be taxed federally as a C Corporation. This includes members owning an interest in the filing entity directly or, to the extent known, indirectly through other flow-through entities. This also includes interests owned indirectly through other flow-through entities for which the owner's member type and/or residence status is unknown.

Line 3: Quarterly returns filed late or without sufficient payment of the tax due are subject to a penalty of 5 percent of the tax due, for the first two months. Penalty increases by an additional 5 percent per month, or fraction thereof, after the second month, to a maximum of 25 percent.

Line 4: Add line 1, line 2 and line 3. This is the amount that should be submitted with this return.

Organization Type Code

Partnerships:

Limited Partnership 33
General Partnership 30

Limited Liability Companies (LLC):

Select a code based on how the LLC files its federal income tax:

Files federal tax as a partnership (Form 1065) 36
Files federal tax as an S Corporation (Form 1120S) 38

Corporation incorporated under Michigan law:

Files federal tax as an S Corporation (Form 1120S) 41

Corporation incorporated under law of any other state or country:

Files federal tax as an S Corporation (Form 1120S) 51

Trust or Estate (Fiduciary) 60
Joint Stock Club 70

EFT Payments

Taxpayers may elect to make remittances by Electronic Funds Transfer (EFT). If you do so, the requirement to file the quarterly FTW return is waived. The payment must still reasonably approximate the liability for the quarter.

NOTE: Your debit transaction will be ineligible for EFT if the bank account used for the electronic debit is funded or otherwise associated with a foreign account to the extent that the payment transaction would qualify as an International ACH Transaction (IAT) under NACHA Rules. Contact your financial institution for questions about the status of your account. Contact Treasury's Electronic Funds Transfer Unit at (517) 636-6925 for alternate payment methods.

Mailing Addresses

Mail the Quarterly Return to:

Michigan Department of Treasury
PO Box 30800
Lansing MI 48909-8300

Make all checks payable to "State of Michigan." Print the taxpayer's Federal Employer Identification Number (FEIN), the tax year, and "FTW Q" on the front of the check. Do not staple the check to the return.