

Instructions for Form 5798, Underpayment of Flow-Through Estimated Tax

Purpose

To compute penalty and interest for underpayment, late payment or filing, or failure to pay or file period estimates. If a taxpayer prefers not to file this form, the Department of Treasury (Treasury) will compute any applicable penalty and interest and bill the taxpayer. Part 4 of this form is used to determine and report the amount of estimates due when income is not evenly distributed throughout the tax year.

NOTE: Penalty and interest for late filing or late payment on the annual return is computed separately on the “Flow-Through Entity Tax Annual Return” (Form 5772).

General Instructions

Estimated returns and payments are required from any taxpayer that reasonably expects an annual FTE liability of more than \$800. As a general rule, the estimated tax payments must be made timely, in four equal installments, and the sum of the installments must equal the lesser of:

- 90 percent of the tax shown on your 2022 tax return, or
- 100 percent of the tax shown on your 2021 tax return.

However, a special rule applies in the first year of an election. A taxpayer in its first year of the three-year election period must use 90% of its current tax year liability to determine its estimated payment threshold.

Penalty or interest may be charged if payment was insufficient or late in any period. This is true even if there is a refund due on the annual tax return. The interest and penalty are figured separately for each due date; penalty and interest could still be owed even if there was underpayment in one period and an overpayment in a later period.

Penalty and interest will not be charged if:

- Timely estimated payments were made in equal installments that equal at least 90% of the tax shown on the taxpayer’s 2022 return, if applicable, or 100% of the tax shown on the taxpayer’s 2021 return.
- The sum of estimated payments equals the annual tax on the preceding tax year’s FTE return, provided these payments were made in four timely equal payments (“four timely equal payments” describes the minimum pace of payments that will satisfy this safe harbor) and the preceding year’s FTE tax is \$20,000 or less. If the prior year’s tax liability was reported for a period less than 12 months, the prior year’s liability must be annualized for purposes of both the \$20,000 ceiling and calculating the period payments due under this method.

Annualizing

A taxpayer that receives income unevenly during the year may use the annualized income installment method consistent with IRC 6654(d). Complete Part 4, if applicable. See Revenue Administrative Bulletin (RAB) 2021-17 for more information about this IRC method.

Line-by-Line Instructions

Lines not listed are explained on the form.

Do not enter data in boxes filled with Xs.

Dates must be entered in MM-DD-YYYY format.

Taxpayer Name and Account Number: Enter name and account number as reported on page 1 of the “FTE Annual Return” (Form 5772). Also, the taxpayer FEIN from page 1 must be repeated in the proper location on page 2.

PART 1: ESTIMATED TAX REQUIRED

Line 1: A taxpayer in its first year of the three-year election period should leave this line blank.

Line 4: A taxpayer in its first year of the three-year election period must use only 90% of its current tax year liability to determine its estimated payment threshold. Accordingly, if the flow-through entity had not elected into the tax for its tax year beginning in 2021, enter here the amount from line 3.

Line 6: Enter the due date for each period return. For calendar year filers these dates are April 15, June 15, September 15, and January 15. For fiscal year filers, these dates are 4th, 6th, 9th and 13th months after the start of the fiscal year. Payment is due on the 15th day of the month. For any short tax year, any remaining estimated payment is due 15 days after the end of the tax year.

Line 7: Divide the amount of the estimated tax required for the year on line 4 by four and enter this as estimated tax for each period. If the business operated less than 12 months, divide by the number of estimated returns required and enter this as the estimated tax for each period.

If income was not earned evenly throughout the year, the required estimated installments may be annualized consistent with IRC 6654(d). Complete Part 4, if applicable.

Line 8: Amount Paid. On this line enter estimated payments made by the taxpayer as directed below:

- **Column A:** Enter estimated payments made by the due date for the first period return.
- **Column B:** Enter payments made after the due date in column A and by the due date in column B.
- **Column C:** Enter payments made after the due date in column B and by the due date in column C.

- **Column D:** Enter payments made after the due date in column C and by the due date in column D.

PART 2: FIGURING INTEREST

Compute the interest due for both non-filing and underpayment of the required estimated tax in this section. Follow the instructions for each line, as interest is calculated separately for each period and the interest rate might not be the same for each period.

Line 17: Enter the due date of the next period or the date the tax was paid, whichever is earlier. In column D, enter the earlier of the due date for the annual return or the date the tax was paid. An approved extension does not change the due date of the annual return (column D) for this computation.

NOTE — Line 26: Interest rates are adjusted every six months and posted as a Revenue Administrative Bulletin (RAB) by Treasury. For updated interest rates, visit michigan.gov/treasury, click on the link titled “Reports & Legal,” then select “Revenue Administrative Bulletins.” The applicable RAB is titled “Interest Rate.”

PART 3: FIGURING PENALTY

Penalty is 25 percent of the tax due (minimum \$25 per penalty) for failing to file estimated payments or 10 percent (minimum \$10 per period) for failing to pay enough with your estimates or paying late.

Line 30: The underpayment for purposes of penalty is figured the same way as the underpayment for interest.

Exceptions:

- If a payment is made after the due date for the installment, the payment is applied to the period it is received.
- If an overpayment occurs in any period, the overpayment amount is carried forward to the next period and applied as a timely payment to that respective period.
- Payments are not carried back to offset underpayments in previous periods.

Line 31: Enter 25 percent if estimated tax payments were not made for 2022. Enter 10 percent if estimated tax payments were made for 2022.

PART 4: ANNUALIZATION INCOME WORKSHEET

If electing to use the annualized income installment method consistent with IRC 6654(d), the taxpayer must annualize for the entire year by completing all four columns, one at a time. Each installment is then compared to one-fourth of the annual liability.

Line 1: This line must be the year-to-date total for each period in the appropriate column. Each column is an accumulating total and should include the amount from the previous column plus any additional income earned up to that date.

Line 8: Each entry on line 8 of the Annualized Worksheet must be reported as the result of page 1, line 4, divided by four, regardless of how the income is earned. This amount is used on for comparison on subsequent lines to the annualized amount, consistent with IRC 6654(d).

Line 12: The sum of Columns A through D on this line must equal the total shown on page 1, line 4.