

Instructions for MICHIGAN Federal Adjustments Report (FAR) for Partnerships and Other Flow-through Entities

General Instructions:

Chapter 18 of the Michigan Income Tax Act, 2022 PA 148, enacted new reporting provisions for partnerships and partners that receive final federal adjustments that arise from a partnership level audit or an administrative adjustment request reported under the federal Bipartisan Budget Act (BBA) of 2015. Under these reporting provisions, all partnerships subject to Chapter 18 must file a "Federal Adjustments Report" (FAR) within 90 days of the final determination date for each "final federal adjustment," which includes information about the "pay up" or "push out" methods of reporting.

For each FAR, complete Parts I.a., II, and whichever is applicable, Part III or IV of this form. Part I.b. must be completed if the filer is a flow-through entity that received pushed-out adjustments from another flow-through entity (e.g., from the audited partnership).

For purposes of these forms *partner* may also refer to a shareholder in a S corporation or member of a limited liability company (LLC), as applicable.

If Part I.b. is completed, *partnership* may instead refer to an S corporation, LLC, or other flow-through-entity.

Due Dates: There are important statutory deadlines under this program, which include the following:

A 90-day deadline —

- For all partnerships, to file an FAR to report certain information about the adjustments to Treasury and to notify Treasury if it will be making the "pay up" election.
- For partnerships that "push out" adjustments, to report to each direct partner their share of the adjustments and, if applicable, pay any Michigan income tax on behalf of direct partners previously included on a composite return. This payment is calculated under Part

IV of this FAR; however, the payment will be made separately as directed in "Making Payments," later.

A 180-day deadline —

- For direct members of a partnership under the "push out" method, to report their share of adjustments to Treasury and to pay the Michigan income tax owed on those adjustments. See www.michigan.gov/taxes/business-taxes/partnership-audit-adjustment for procedures for partners to report adjustments and pay tax or claim a refund.
- For a partnership that made the "pay up" election, to pay the collective Michigan income tax owed on those adjustments. (see "Making Payments" later).

The above due dates are established by reference to the "final determination date" of the federal adjustment. See instructions for Part I.a. for a definition of final determination date. If the due date falls on a weekend or holiday, the report or payment is due the following business day.

Making Payments: Payments for the "pay up" method are required to be made using Treasury's online system, Michigan Treasury Online (MTO). This payment option is available through the Fast Pay option under Guest Services.

For information about making a payment under the "push out" method, if applicable, see www.michigan.gov/taxes/business-taxes/partnership-audit-adjustment.

Interest and Penalty

In completing Parts III and IV of this form, a partnership may be required to compute penalty and interest. You may use Treasury's online tool to calculate interest and penalty, located at <https://www.michigan.gov/taxes/iit/tools/calculate-late-penalty-and-interest>.

- For a refund, Treasury will pay interest on the refund as required under the Revenue Act. Leave this line blank if a refund is claimed.

Note: To reduce interest, it is in the taxpayer's best interest to apply prepayments first to the higher rate columns (B.ii. and B.iii. at 6%) first, before applying any remaining prepayments to the 4.25% tax in Column B.i.

Payments in anticipation of this liability:

Partnerships or other flow-through entities expecting to owe additional tax arising from a partnership audit or administrative adjustments request may submit payments in anticipation of that liability. These payments must be made in MTO and will limit the accrual of further statutory interest on that amount. See the line-by-line instructions for the applicable "Payments made in anticipation of this liability" for more information.

Part I.a.: Information about the Partnership Filing This Report

Enter the information for the partnership or other flow-through entity filing this FAR.

Reviewed Tax Year Ending means the last day of the tax year to which the final federal adjustments apply. This is the tax year end of the filer of this form, which may not necessarily be the same year end as the audited partnership (see Part I.b.). **File a separate FAR for each reviewed tax year.**

Required Attachments: All filers must attach the documents that report their federal adjustments, including, but not limited to,

- Form 15027
- Form 866-A
- Form 8082
- Any other document or court order applicable to the final federal adjustments at the partnership level.

Final Determination Date (FDD) is defined under MCL 206.325. Generally, for federal adjustments

arising from a partnership level audit, the FDD refers to the first day on which no federal adjustment arising from the audit remains to be finally determined, including the period of any subsequent appeal. In contrast, for federal adjustments arising from an administrative adjustment request, the FDD generally refers to the date on which the administrative adjustment request was filed with the Internal Revenue Service (IRS). Deadlines for reporting adjustments to Michigan Treasury and if applicable, partners, and paying associated liabilities are established by reference to the FDD of the federal adjustment.

For taxpayers with an FDD that occurred before January 1, 2023, report 01/01/2023 in this field. For these taxpayers, deadlines are 90 and 180 days after January 1, 2023, whichever is applicable. See Treasury's [Notice Regarding the Implementation of 2022 Public Act 148](#)

If Part I.b. is completed, the filer's FDD in Part I.a. should be 90 days before the time for filing and furnishing statements to tiered partners and their partners as established under section 6226 of the internal revenue code.

Part I.b.: Information about the Partnership Subject to a Federal Adjustment (if different from Part I.a.)

Within a tiered structure, a partnership that does not make the "pay up" election for Michigan income tax purposes must push out final federal adjustments to partners, including partners that are other flow-through entities. To report their respective share of final federal adjustments, these other flow-through entities are allowed to also either elect the "pay up" or use the "push out" method. This Part of the FAR should only be completed by a flow-through entity (whose information is reported in Part I.a.) that needs to report a share of final federal adjustments from another partnership or other flow-through entity. **Do not complete this part if you are not reporting adjustments from another entity in a tiered structure.**

Report in this Part the information of the audited partnership or the partnership that filed the administrative adjustments request with the IRS, even if that partnership is not directly owned by the filer. In other words, report the information of the partnership in the chain of ownership that originally elected to push out its final federal adjustments for Michigan income tax purposes.

Audited Partnership's Final Determination

Date: Report here the FDD of the audited partnership or the partnership that filed the administrative adjustments request with the IRS.

Reviewed Tax Year Ending: Report here the last day of the tax year of the audited partnership or the partnership that filed the administrative adjustments request with the IRS.

Part II: Information about the State Partnership Representative

All taxpayers filing this report must complete Part II to identify the State Partnership Representative. The State Partnership Representative refers to the person with sole authority to act on behalf of the partnership filing this report, to report final federal adjustments for the reviewed tax year. Unless otherwise designated in writing by the partnership, the State Partnership Representative will generally be the same person who served as the federal partnership representative for the reviewed year.

Part II Checkbox: If this box is not checked, you must attach a written statement, signed by an officer of the partnership, designating you to act as the State Partnership Representative for the reviewed tax year. Failure to include a written statement may result in the rejection of this report and the imposition of additional penalty or interest, as applicable.

Part II Certification: The State Partnership Representative must attest to the accuracy and its authorization to act on behalf of the taxpayer by

using a separate document at this time. See “*Signature of State Partnership Representative for the Taxpayer Filing Form 5870*” on treasury’s website at www.michigan.gov/taxes/business-taxes/partnership-audit-adjustment. Attach that document, along with the FAR for Partnerships and Other Flow-through Entities, to an email sent to Treas-PAA-Customer-Support@michigan.gov

Part III: The “Pay Up” Election

A partnership may elect to “pay up” on behalf of certain partners. Under this election, the partnership will file an FAR and either pay the resulting Michigan income tax liability or claim the Michigan income tax refund due on behalf of all eligible partners. A partnership that makes the “pay up” election will be subject to all laws related to the reporting, assessment, payment, and collection of tax as provided under the Income Tax Act, MCL 206.1 et seq., and the Revenue Act, MCL 205.1 et seq. All direct and indirect partners are bound by the partnership’s election to “pay up” and partners may not separately choose not to participate in that election. **A partnership making the “Pay Up” election must check the box in Part III to affirmatively make the election.**

The information used to complete this section must be based on the partner information that is reported on *Part III Supplemental Schedule - Reviewed Year Partner Report for the Pay Up Method* (Form 5871), which is included in the same workbook as this report and **must be included in the filing of this FAR.**

Section A: This section is used to calculate the amount of final federal adjustments subject to tax in Michigan. The “Total Final Federal Adjustments from Review Year” in this section refers to the sum of all final federal adjustments from the reviewed year before apportionment or any other state-level modifications. Before attributing those adjustments to its respective partners (see Part III, Section B), the partnership must first exclude any distributive share attributable to partners that are tax-exempt. Partnerships should therefore identify the

distributive share attributable to exempt partners that are reported on Section III.A. of the Part III Supplemental Schedule. The total adjustments subject to tax determined in this section will be used to complete Section B.

Section B: This section is used to compute the total amount of tax owed by, or refund due to, the partnership making the “pay up” election. Partnerships use this section to determine the Michigan income tax liability or refund on the total share of final federal adjustments attributable to most direct and, if known, indirect partners. Complete all columns in this section by reference to Sections B.i through B.iii. of the Schedule of Partners.

The “pay up” method requires the partnership to compute the potential Michigan income tax on behalf its partners based on the ultimate identity of those partners, if known. Partnerships should apply the relevant Michigan income tax rules applicable to each respective class of partners. For example, a partnership paying tax on behalf of an individual or fiduciary partner should apply the applicable tax rate and apportionment rules applicable to individuals and fiduciaries under Chapter 3 of Part 1 of the Income Tax Act, whereas a partnership paying tax on behalf of a corporate partner should apply the tax rate and apportionment rules applicable to corporations under Part 2 of the Income Tax Act. Note that, due to certain statutory differences between the provisions under Part 1 and Part 2 of the Act, it is possible that the apportionment factor in Section B.i may not be identical to the factor in Section B.ii.

A partnership paying tax on behalf of an indirect partner that will remain unidentified, whose adjustments is reported in Column B.iii., must use the tax rate and apportionment factor under Part 2 of the Act (corporations).

Share of Total Final Federal Adjustments from Reviewed Year (Row): The share of total final federal adjustments from the reviewed year in Sections B.i., B.ii., and B.iii (each field of this row)

must equal the Total Final Federal Adjustments Subject to Tax as reported in Section A.

Section B.ii.b. (Field) The partnership is not permitted to pay tax or claim refunds on behalf of certain partners, which include the following:

- Any direct or indirect corporate partner that is unitary for apportionment purposes with the audited partnership or with any of the other flow-through entities in the chain of ownership from which these final federal adjustments arose; and
- Any direct or indirect corporate partner that is included as a member of a unitary business group.

The partnership must identify these excluded partners and report the share of final federal adjustments attributable to each partner separately in Section B.ii.b. of the Schedule of Partners. Because these partners’ adjustments are not eligible to be included under the “pay up” election, these partners must file an amended Corporate Income Tax Return, Form 4891, to report their share of the final federal adjustments in Michigan.

Section B.iii. (Column): This column can only be used by a flow-through entity with indirect owners that cannot be identified. Accordingly, these adjustments are subject to the higher corporate income tax rate and to those apportionment rules. Adjustments attributable to indirect partners that can be identified should instead be reported instead in their respective column, Section B.i. or B.ii.

Example: Partnership X makes the “pay up” election on behalf of its direct and indirect partners. Even though one of its partners is another flow-through entity, Partnership X can identify that each member of that other flow-through entity is an individual partner. Provided Partnership X identifies those indirect partners accurately by name and account number on the Schedule of Partners, Partnership X should include adjustments attributable to those partners

in Section B.i and compute tax using Chapter 3 apportionment and the 4.25% tax rate.

Payment Due Date: Any payment due under Part III must be paid on or before 180 days of the FDD reported in Part I. See “Making Payments” for more information.

Part IV: The “Push Out” Method

All partnerships that do not make the “pay up” election are required to use the “push out” method of reporting final federal adjustments.

Under the “push out” method, the partnership is required to report all relevant information about the final federal adjustments *to its direct partners*.

Under the “push out” method, all direct partners must be identified on the Part IV Supplemental Schedule - *Reviewed Year Partner Report for the Push Out Method*, which is included in the same workbook as this report and **must be included in the filing of this FAR.**

Direct partners that receive pushed-out adjustments are generally required to separately report their adjustments and pay for or claim a refund of the associated taxes. Direct partners should follow the following procedures:

1. Corporate partners subject to Chapter 12 of the income tax act (“standard CIT taxpayers”) should file Form 4892, *Michigan Corporate Income Tax Amended Return*, to report their final federal adjustments. Payments should be made as indicated in the instruction to that amended return.
2. Individual and fiduciary partners subject to Part 1 of the income tax act should see www.michigan.gov/taxes/business-taxes/partnership-audit-adjustment for reporting and payment or refund claim procedures.
3. Nonresident partners who participated in a Michigan Individual Income Tax Composite Return (Form 807) for the reviewed year have no obligation to directly report or pay tax with respect to these adjustments; that

responsibility is handled by the partnership or other flow-through entity filing this FAR. See Part IV.b.

Note for Tiered Structures: When a partnership pushes out final federal adjustments to direct partners that are other flow-through entities, those other flow-through entities may report those final federal adjustments under either the “pay up” or “push out” method as authorized under Chapter 18 of the Income Tax Act. Flow-through entities that receive a distributive share of pushed-out adjustments should therefore file an *FAR for Partnerships or Other Flow-Through Entities* and determine whether to “Pay Up” or “Push Out” its share of the adjustment to its respective partners, shareholders, or members. For more information, see the instructions for Part I.b.

Part IV.b. Partnerships using the “push out” method must still act on behalf of any partners that participated in an original composite return for the reviewed tax year. Essentially, the partnership is filing a composite report of adjustments on behalf of those same partners. In computing any payment due on behalf of these partners, the partnership is required to identify the partner’s name and report the share of final federal adjustment attributable to Michigan for that partner. Partnerships must complete Part IV.b. using the information reported on the Part IV Supplemental Schedule - *Reviewed Year Partner Report of the Push Out Method*.

Payment Due Date: The total payment due under the “Push Out” method, if applicable, is due within 90 days of the FDD reported in Part I.

Making Payments on Behalf of Composite Partners: **Do not make payments due and reported under Part IV.b. using MTO.** Instead, use [Form 5839. Partnership Adjustments Payment Voucher.](#)

Claiming a Refund on Behalf of Composite Partners: See www.michigan.gov/taxes/business-taxes/partnership-audit-adjustment for more information.

Part III Supplemental Schedule: Reviewed Year Partner Report for the Pay Up Method

This schedule must be completed by all partnerships that elect to “Pay Up” by completing Part III of the *Michigan Federal Adjustments Report (FAR) for Partnerships and Other Flow-through Entities*. Identify each partner by name, federal identification number or social security number, and address. Additional information may be required as indicated. **Do not truncate or otherwise redact any part of an identification number.** Add as many lines as necessary to each section of this schedule.

Section B.ii.b. Unitary Corporate Partners Required to be Excluded from "Pay Up" Calculation

Partnerships are not permitted to pay tax or request a refund on behalf of corporate partners that are members of a Unitary Business Group (UBG) or that are unitary for apportionment purposes with the flow-through entity (see MCL 206.661 and 663 for more information on the latter partner type). Instead, these partners are required to file a *Michigan Corporate Income Tax Amended Return* (Form 4892) to report their respective shares of final federal adjustments. For a member of a UBG with federal adjustments, that amended return must include all persons included in the UBG.

In completing Section B.ii.b., the partnership should include the partner’s share of final federal adjustments in only one column. That amount should be the federal-level adjustment, reported **prior to** apportionment or any other state-level adjustment. Such relevant state-level information must be reported to these corporate partners, which will allow them to accurately complete their amended CIT returns.

The “Total Unitary Adjustments Excluded from ‘Pay Up’ Calculation” on this schedule must match

the Unitary Exclusions field (Part B.ii.b) in the Section B.ii. column on the Partnership FAR.

Section B.iii – Direct Partners Whose Partners

are Not Identified: This section is necessary to accommodate the payment of tax on behalf of certain other flow-through entities within a tiered structure. For example, under the “pay up” method, tax is paid by a partnership on behalf of indirect partners even if the partnership is not able to reasonably identify those indirect partners. If the partnership cannot reasonably identify the indirect partners or cannot identify all indirect partners of another flow-through entity, the partnership must identify in Section B.iii its partner that is another flow-through entity (the “tiered partner” that is owned by the unidentified indirect partners).

Example: Partnership Y is making the “Pay Up” election. Z, LLC is a partner of Partnership Y and has 3 individual members. Partnership Y can identify each of the individual members of Z, LLC. Therefore, Y reports the adjustments attributable to the three members in Part B.i. of the FAR, lists them in Section B.i. of this schedule, and pays the tax due on their behalf at the individual income tax rate. Because all members of Z have been identified by Y, Y is not required to identify Z in Section B.iii.

Example: Assume the same facts as above, except that Y is only able to identify 2 out of 3 individual members of Z. Y includes the adjustments of those 2 members in Section B.i. of the FAR, lists them in Section B.i. of this Schedule, and pays the tax due on their behalf at the individual income tax rate. However, because all members of Z have not been identified by Partnership A, then Partnership A should separately identify FTE B in Section B.iii.

Part IV Supplemental Schedule: Reviewed Year Partner Report for the Push Out Method

This schedule must be completed by all partnerships using the “Push Out” method and

completing Part IV of the *Michigan Federal Adjustment Report (FAR) For Partnerships and Other Flow-Through Entities*. Partnerships that elect to "pay up" on Part III of that report should not complete this supplemental schedule.

This supplemental schedule is used to report information about each direct partner to whom a share of final federal adjustments will be pushed out by the partnership. Except for those partners who participated in a composite return (see Part IV.b.), each partner identified in this supplemental schedule is required to separately report their share of the final federal adjustments, as applicable. For information on the partner's reporting obligations, see

www.michigan.gov/taxes/business-taxes/partnership-audit-adjustment.

Do not truncate or otherwise redact any part of an identification number. Add as many lines as necessary to each section of this schedule.

Column (D): Identify each partner's taxpayer type using one of the following codes:

COM	Michigan composite return participant for the reviewed tax year
IIT	Individual
FID	Fiduciary (trust or estate that generally reports using Form MI-1041)
CIT	C Corporation
FTE	Flow-through Entity (partnership, S corporation, or LLC)
EXP	Tax Exempt Entity

Note: If the partner is a tax-exempt entity but would report unrelated business income taxable by Michigan under the Income Tax Act, do not enter EXP. Instead, select the other entity type that applies.

Column (E): Determine the apportionment factor to be used by the direct partner in reporting those adjustments in Michigan. Note that, due to differences between Part 1 and Part 2 of the Income Tax Act, the apportionment factor may be different for individual or fiduciary vs. corporate partners. For additional information on calculating

the apportionment factor for each respective partner, see www.michigan.gov/taxes.

Note: For partners that are other flow-through entities, report the apportionment factor as calculated under Part 1 or Part 2 of the Income Tax Act, whichever is most appropriate under the facts (generally determined based on the owners of that other flow-through entity).

Note: A partner receiving these pushed-out adjustments may be eligible or required to apply a combined apportionment factor that includes the sales of other entities. In those cases, report this filer's Michigan apportionment factor and not the combined factor, even if known.

Column (F): Report in this column the partner's share of final federal adjustments, which should be the federal-level adjustment, reported **prior to** apportionment or any other state-level adjustment. Such relevant state-level information must be reported to these corporate partners, which will allow them to accurately report their Michigan adjustments.

The total of amounts reported in Column (F) must equal the amount reported as "Final Federal Adjustments Allocable to Direct Partners" in Part IV.a. of the Partnership FAR.

Column (G): Enter an amount in this line only for partners whose entity type is marked "COM" in Column (D).

Partnerships that push out final federal adjustments must still act on behalf of direct partners that participated in a Michigan Individual Income Tax Composite Return (Form 807) for the reviewed year. Essentially, the partnership is filing a composite report of adjustments on behalf of those same partners. Enter in this column the Michigan share of final federal adjustment for each direct partner.

This Michigan amount will often not be found simply by multiplying the final federal adjustment in Column (F) by the apportionment percentage in Column (E). The Michigan amount should be reported as *if final federal adjustments had been*

properly reported. Accordingly, Michigan statutory additions, subtractions, and any other adjustments (such as guaranteed payments to partners fully allocated in or out of Michigan), must be made in arriving at the Michigan amount reported in this

column. **Attach any schedules or other relevant documentation to support your calculations.**

The total amounts reported in Column (G) must equal the "Tax Liability (Overpayment)" reported on Part IV.b. of the Partnership FAR.