

2018 MICHIGAN Schedule of Apportionment MI-1040H

Type or print in blue or black ink. Print numbers like this : 0123456789 - NOT like this: 0 1 4 7
 Include with Form MI-1040, MI-1041, or Form 807.

Attachment 09

1. Owner's Name	2. Identifying Number
3. Name of Business Entity	4. Federal Employer Identification No. (FEIN)
5. Combined Unitary Apportionment <input type="checkbox"/> Check this box if you elect to combine the apportionment of business income (loss) from entities unitary with one another. If this box is checked, write the word "Unitary" in box 3 and leave box 4 blank. NOTE: If you elect to use combined apportionment, you must use combined apportionment for every unitary group from which you receive income (loss).	

PART 1: COMPUTATION OF SALES FACTOR FOR APPORTIONMENT PERCENTAGE

6. Michigan sales (see instructions regarding throwback sales)	6.		00
7. Total sales.....	7.		00
8. Apportionment Percentage. Divide line 6 by line 7.	8.		%
9. <input type="checkbox"/> Check this box if you have a current year federal excess business loss and complete Form MI-461. Important: See instructions before continuing to Part 2.			

PART 2: COMPUTATION OF INCOME ATTRIBUTABLE TO ANOTHER STATE(S)

10. Business income included in adjusted gross income that is subject to apportionment (include ordinary, portfolio, and all other business income from this business activity).....	10.		00
11. Multiply the amount on line 10 by the apportionment percentage on line 8.	11.		00
12. Income or loss attributable to another state(s). Subtract amount on line 11 from line 10. Enter here and on Schedule 1, line 13 (income) or line 4 (loss). Nonresidents and part-year residents: Include this amount on the appropriate line in column C of Schedule NR.....	12.		00

PART 3: COMBINED APPORTIONMENT UNDER THE UNITARY BUSINESS PRINCIPLE

13. If you checked box 5 above, list below the entities that are unitary with one another for which you are combining apportionment. Include a separate schedule showing your computations. If more than eight entities will be listed, include additional Form(s) MI-1040H with "Unitary" on line 3 and lines 6 through 12 left blank.

Entity Name	Federal Employer Identification Number (FEIN)

Instructions for Form MI-1040H, *Schedule of Apportionment*

Purpose

Business income from business activity that is taxable both within and outside Michigan is apportioned to Michigan for individual income tax (IIT) purposes using this form.

Identification

For individual income tax filers, enter the owner's name and full nine-digit Social Security number on lines 1 and 2. For fiduciary filers, enter the name of the estate or trust and full Federal Employer Identification Number (FEIN).

General Instructions

In order to determine if apportionment is required rather than allocation, a taxpayer must determine if the business activity causes the taxpayer's income to be subject to tax in both Michigan and another state. The Michigan Income Tax Act definition of "state" includes a foreign country.

A taxpayer's business income is taxable in another state if:

1. In that state the taxpayer is subject to a net income tax, a franchise tax measured by net income, a franchise tax for the privilege of doing business, a corporate stock tax, or
2. That state has jurisdiction to subject the taxpayer to a net income tax regardless of whether the state does or does not.

Michigan IIT uses the standards prescribed by federal Public Law (P.L.) 86-272 to determine whether another state has jurisdiction to subject the taxpayer to a net income tax.

Part 1: Computation of Sales Factor for Apportionment Percentage

Business income subject to apportionment is sourced to Michigan by applying a sales factor. To compute the sales factor, divide the total sales in Michigan during the tax year by the total sales everywhere during the tax year.

"Sales" includes gross receipts from sales of tangible property, rental of property and providing of services that constitute business activity. Exclude all receipts of nonbusiness income.

Sales of tangible personal property are in Michigan if:

1. The property is shipped or delivered to a purchaser (other than the United States government) within Michigan regardless of the free on board (F.O.B.) point or other conditions of the sale, or
2. The property is shipped from an office, store, warehouse, factory or other place of storage in Michigan and the purchaser is the United States government or the taxpayer is not taxable in the state of the purchaser.

NOTE: The numerator of the sales factor for individual income tax may include "throwback sales." Throwback sales are sales of tangible personal property that originate in Michigan made to a purchaser in another state or country, and are "thrown back" to the numerator as Michigan sales because they are not taxable by the other state. Throwback sales follow federal P.L. 86-272 standards; the business must have physical presence in the other state or activity beyond solicitation of sales in order to exclude sales into another state or country from the numerator. There is no "water's edge" for individual income tax purposes.

Sales of other than tangible personal property (e.g., services) are in Michigan if:

1. The business activity is performed in Michigan, or
2. The business activity is performed both in Michigan and in another state(s), but based on cost of performance, a greater proportion of the business activity is performed in Michigan.

There are special apportionment formulas for transportation companies and other authorized taxpayers. Those formulas are identified in Chapter 3 of the Michigan Income Tax Act.

Part 2: Computation of Income Attributable to Another State(s)

Michigan defines business income as all income arising from transactions, activities, and sources in the regular course of the taxpayer's trade or business. Michigan business income includes the distributive share of income from a flow-through entity, including portfolio income. Portfolio income includes interest income, dividend income, royalty income, and net short-term and long-term capital gain (loss) reported on the federal *Schedule D*. For more information see individual income tax FAQs Business Income Reportable on MI-1040 or MI-1041 at www.michigan.gov/taxes.

If you have a current year federal excess business loss limitation, complete *Michigan Excess Business Loss (Form MI-461)* before completing Part 2.

Michigan's definition of business income differs from the federal definition of business income. Due to the differences in the business income reported for federal purposes, the federal business income and loss reported on Form MI-461 may not include all business income or loss for Michigan purposes (e.g., interest and dividends). Therefore, line 10 of this form should exclude amounts reported and apportioned on Form MI-461. However, apportionable interest, dividends and other business income not reported on Form MI-461 must be reported on line 10.

Wages, guaranteed payments to partners and unemployment compensation reported on Form MI-461 are not considered business income for Michigan purposes and should not be included on line 10 of this form.

If apportioned business capital gains (losses) are reported on line 3 and/or line 8 of Form MI-1040D or Form MI-461, do not include those amounts on line 10 of this form.

A separate Form MI-1040H should be used for each business activity that requires apportionment. If you have more than one MI-1040H and are a Michigan resident, do not net income and losses from multiple forms together. Instead, combine losses on line 12 with other losses on line 12 and enter the total losses from other states on Schedule 1, line 4; combine income on line 12 with other income on line 12 and enter total income from other states on Schedule 1, line 13. Nonresidents with more than one Form MI-1040H should net income and losses from line 12 of all MI-1040H forms before entering the total on Schedule NR, column C.

Part 3: Combined Apportionment Under the Unitary Business Principle

In 2013, the Michigan Supreme Court held that combined apportionment under the unitary business principle may be used to calculate IIT taxable income at the election of the taxpayer, *Malpass v. Department of Treasury*, 494 Mich 237 (2013). A taxpayer now has the option to apportion each discrete legal entity's income (loss) separately or to combine apportionment when entities are unitary with one another.

When a taxpayer elects to combine apportionment factors of the unitary business the taxpayer must control the entities included in the combined apportionment filing and those entities must have a flow of value between their various operations. A taxpayer with control may elect to combine apportionment when the business operations show:

- Economic realities
- Functional integration
- Centralized management
- Economies of scale
- Substantial mutual interdependence

These factors are not exhaustive or exclusive and the ability to elect combined apportionment will depend on the totality of the circumstances.

The holding by the Michigan Supreme Court in the *Malpass* case is retroactive. Amended returns are required if business income is subject to apportionment and the taxpayer elects to apply the combined method to a year open to the statute of limitations.

NOTE: If you are reporting combined apportionment, you must include a separate schedule showing your computations. See "MI-1040H Unitary Apportionment Worksheet Example" available on Treasury's Web site.