

MI-1040H Unitary Apportionment Worksheet

When apportioning business income, the Constitutional concept of a unitary business applies. A unitary relationship exists when a taxpayer has control over the entities and the entities have a flow of value between their various operations. Factors that establish flow of value include economic realities, functional integration, economies of scale, centralized management and substantial mutual interdependence. The taxpayer must apportion the business income of all the businesses that operate as a unitary business. However, for Michigan individual income tax purposes, the taxpayer has a choice. The taxpayer may apportion the business income of a single company at the entity level if the company operates one or more divisions as a unitary business. Alternatively, the taxpayer may apportion all the business income of multiple legally separate companies at the taxpayer level if those companies operate as a unitary business. See the example below for guidance on apportioning multiple entities at the individual taxpayer level.

Generally, to compute unitary apportionment, all the Michigan sales* of every company in the group are combined to arrive at "Michigan sales" in Part 1 of the MI-1040H *Schedule of Apportionment* (MI-1040H). Then the total sales of every company in the group are combined to arrive at "Total sales" in Part 1 of the MI-1040H. When calculating the Michigan sales and the total sales of each company, intercompany sales may be eliminated. In addition, each company's Michigan sales and total sales are multiplied by the individual's ownership interest percentage in the corresponding company. The business income (or loss) from all the companies in the group, to the extent included in AGI, is combined to arrive at business income subject to apportionment in Part 2 of the MI-1040H.

Individual taxpayers who use the unitary apportionment method must identify the members in the group and show the combining calculations. This group can include non-Michigan companies but should include only companies that reported income (or loss) to the individual taxpayer. The election to use combined apportionment is made on an annual basis. A worksheet identifying the members in the group and showing the combining calculations must be included with the MI-1040H filed with the MI-1040 return. The worksheet may be attached as a PDF file to an e-filed return using the file name "UnitaryCalculation.PDF." An illustrative example of a worksheet that provides the required information follows.

* *Michigan sales of tangible product are computed as provided in [MCL 206.122](#)
Michigan sales of other than tangible product (services) are computed as provided in [MCL 206.123](#)
Michigan sales of transportation services are computed as provided in [206.131 - 206.134](#)*

EXAMPLE

MI-1040H Unitary Apportionment Worksheet

Individual taxpayer Robert is a shareholder in two companies. He has a 75% ownership interest in Ajax Company and a 60% ownership interest in Acme Company. The companies operate as a unitary business. Robert's adjusted gross income includes distributive share income from both companies. Robert's distributive share income from the companies is subject to apportionment as one or more companies in the unitary group has business activity within and outside of Michigan. Robert elects to use the unitary (combined) apportionment method and prepares the following worksheet to submit with his MI-1040H filed with his MI-1040 return.

Taxpayer Name: Robert

Social Security Number : 123-45-6789

Tax Year: 2015

| Unitary Business Group - Michigan Sales | Gross Michigan Sales | Intercompany Michigan Sales Elimination | Net Michigan Sales | Ownership Interest | Net Michigan Sales x Ownership Interest |
|--|----------------------|---|--------------------|--------------------|---|
| Ajax Company | 19,000 | (3,000) | 16,000 | 75% | 12,000 |
| Acme Company | 26,225 | | 26,225 | 60% | 15,735 |
| Total Michigan Sales, enter on line 6 of MI-1040H | | | | | 27,735 |

| Unitary Business Group - Everywhere Sales | Gross Everywhere Sales | Intercompany Everywhere Sales Elimination | Net Everywhere Sales | Ownership Interest | Net Everywhere Sales x Ownership Interest |
|--|------------------------|---|----------------------|--------------------|---|
| Ajax Company | 30,333 | (10,000) | 20,333 | 75% | 15,250 |
| Acme Company | 34,500 | | 34,500 | 60% | 20,700 |
| Total Everywhere Sales, enter on line 7 of MI-1040H | | | | | 35,950 |