

# ***Michigan – Amended returns required for certain financial institutions to report effect of eliminations***

*September 27, 2013*

## ***In brief***

Beginning October 1, 2013, Michigan financial institutions are required to report their net capital as a negative number on Michigan Business Tax (MBT) and Corporate Income Tax (CIT) returns when certain intercompany eliminations create an equity deficit. This presentation is required on originally filed returns. Additionally, the Department is requiring affected taxpayers to file amended returns for the 2008 to 2012 tax years to reflect this negative net capital presentation. Amended returns are required even if the resulting liability or refund is not affected by the changes. [[Notice to Taxpayers Regarding Financial Institution Unitary Filing and Reporting of Eliminations for the MBT and CIT, Department of Treasury](#), (9/20/13)]

## ***In detail***

### ***Financial institutions – Reporting net capital as a unitary group member***

Under the MBT and CIT, financial institutions pay a franchise tax measured by net capital. If a financial institution has an equity deficit (e.g., if its liabilities exceed its assets), such equity deficit is presented as a zero on MBT and CIT returns, in accordance with generally accepted accounting principles.

Although members of a unitary business group file a single combined return, each member of the group calculates its tax

base independent of other members.

### ***Eliminations may create negative net capital and lead to incorrect return calculations***

A member of a unitary business group of financial institutions may eliminate its investment in the positive equity capital of other members. Because these eliminations are not separately presented on a member's unitary return, "a member's equity capital line may be a negative number after eliminations, even when the member has positive or zero equity capital prior to eliminations." The inability to

separately present eliminations results in incorrect computations of liability for some taxpayers, according to the Department.

### ***Reporting eliminations of financial institutions beginning October 1, 2013***

Beginning October 1, 2013, all affected taxpayers should file *original or amended* MBT and CIT returns for the 2008 to 2012 tax years to present a negative number on their equity capital line if that negative number is a result of eliminations. Amended returns are required even if the resulting liability or refund is not affected.

2013 tax year forms and instructions are being revised by the Department.

The Notice provides examples, which include situations where (1) all members are solvent (i.e., they have positive equity) prior to eliminations, (2) one member is insolvent (i.e., it has negative equity) prior to eliminations, and (3) the designated member and one other another

member are insolvent prior to eliminations.

### **The takeaway**

Michigan taxpayers with negative equity capital after eliminations for the 2008 through 2012 tax years should file original or amended returns to present their equity consistent with guidance provided in

the Notice. For the 2013 tax year and beyond, taxpayers should be mindful of the reporting method described in the Notice and the forms and instructions that are to be provided by the Department to properly report eliminations in a UBG of financial institutions.

## **Let's talk**

If you have questions about the Notice, please contact any of the following individuals:

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