

January 2012

Michigan Flow-Through Withholding Effective for Tax Year 2012

Changes to Michigan's Income Tax Act went into effect on January 1, 2012, which require quarterly withholding in some circumstances.

Corporate Income Tax (CIT) Withholding

The Michigan Income Tax Act added a new corporate income tax (CIT) replacing the previous Michigan Business Tax (MBT). One of the major changes from the MBT to the CIT, is the CIT only applies to C Corporations. However, other companies are not completely relieved of the new Michigan CIT in some circumstances.

Flow-through entities, such as partnerships or limited liability companies are required to withhold CIT in some circumstances.

Flow-Through withholding is required for any flow-through entity which has:

- A C Corporation owner, including a Tiered ownership structure which has a lower-tiered C Corporation owner, and
- Michigan business income greater than \$200,000.

Flow-Through Withholding for Non-Michigan Residents

The Income Tax Act continues to require flow-through withholding for members, partners, and shareholders who are non-resident individuals, regardless of income levels.

The State of Michigan is putting increased emphasis on ensuring companies with Non-Michigan resident owner(s) remit quarterly withholding payments for each Non-Michigan resident's proportionate share of Michigan income.

Quarterly Withholding Returns

If your company is subject to either the Corporate Income Tax withholding or the Flow-Through withholding for non-resident individuals, quarterly payments must be remitted to the State.

These payments are paid with Form 4917 and are due for calendar year taxpayers as follows:

- 1st Quarter – due April 16, 2012
- 2nd Quarter – due July 16, 2012
- 3rd Quarter – due October 15, 2012
- 4th Quarter – due January 15, 2013

State Notification of Changes

The State has already begun sending notices to taxpayers. In some cases, the State is automatically registering companies for flow-through withholding. In these cases the State is expecting quarterly returns even if the company does not have a withholding requirement. If you receive one of these notices, action will be needed regardless of your situation.

Doeren Mayhew Can Help

If you're unsure how these requirements affect you, or if you just have questions regarding these new rules, we can help. Please contact us at (248) 244-3000.