

# 2012 MICHIGAN Business Tax Loss Adjustment for the Small Business Alternative Credit

Issued under authority of Public Act 36 of 2007.

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| Taxpayer Name (If Unitary Business Group, Name of Designated Member)                       | Federal Employer Identification Number (FEIN) or TR Number |
| Unitary Business Groups Only: Name of Unitary Business Group Member Reporting on This Form | Federal Employer Identification Number (FEIN) or TR Number |

**INSTRUCTIONS:** Use this worksheet to qualify for an otherwise disallowed Small Business Alternative Credit by adjusting current year adjusted business income. This is available only if a taxpayer had a negative adjusted business income in any of the five tax years immediately preceding this tax year and received a Single Business Tax Small Business Credit or MBT Small Business Alternative Credit in the loss year. Partnerships and members of Unitary Business Groups, see instructions. Each Unitary Business Group member with a disqualifier must complete this form.

## PART 1: CURRENT YEAR AMOUNTS

Use this section to determine amount of loss adjustment to business income needed to qualify for the Small Business Alternative Credit.

### Adjusted Business Income Disqualifier

|  |    |    |
|--|----|----|
| 1. Adjusted Business Income from Form 4571, line 8.....  | 1. | 00 |
| 2. Business Income Disqualifier.<br>Enter \$180,000 for individuals, or \$1,344,200 for all other organization types ..... | 2. | 00 |
| 3. Loss adjustment required. Subtract line 2 from line 1. If less than zero, enter zero.....                               | 3. | 00 |

### Shareholder Income Disqualifier: \$180,000

|  |    |    |
|--|----|----|
| 4. Enter the amount from Form 4571, line 5c.....   | 4. | 00 |
| 5. Shareholder Income Disqualifier (See chart in instructions).....  | 5. | 00 |
| 6. Enter compensation and director fees from Form 4577, column L, of the shareholder creating the disqualifier or reduction* ..... | 6. | 00 |
| 7. Subtract line 6 from line 5. If less than zero, enter as a negative number.....   | 7. | 00 |
| 8. Divide line 7 by the percent of ownership from Form 4577, column G, for the shareholder on line 6.....                          | 8. | 00 |
| 9. Loss adjustment required. Subtract line 8 from line 4 .....   | 9. | 00 |

\* Note: If compensation exceeds \$180,000 for any C Corporation shareholder or officer, a Small Business Alternative Credit cannot be claimed nor can a loss adjustment be used to reduce compensation from Form 4577, column L.

## PART 2: AVAILABLE LOSS

**Read instructions before completing Part 2.** Use Part 2 to determine the loss available from the five preceding periods. Do not enter a negative sign in front of the loss amounts in lines 11 through 16.

Complete lines 10 for the five immediately preceding tax years (oldest at left). Then complete lines 11 through 16, one column at a time beginning with the oldest, but completing only those columns representing periods that reported a loss AND received a Small Business Credit or Small Business Alternative Credit.

|  |  |  |  |  |
|--|--|--|--|--|
| 10. Tax year end date (MM-DD-YYYY) .....     |  |  |  |  |
| 11. Adjusted business income.....            |  |  |  |  |
| 12. Loss used on prior returns.....          |  |  |  |  |
| 13. Loss available for current return .....  |  |  |  |  |
| 14. Loss adjustment required .....           |  |  |  |  |
| 15. Remaining loss adjustment required ..... |  |  |  |  |
| 16. Loss adjustment carryforward .....       |  |  |  |  |



# Instructions for Form 4575, Michigan Business Tax (MBT) Loss Adjustment for the Small Business Alternative Credit

**NOTICE:** The disqualifying amount of adjusted business income (ABI) is misstated on line 2 of the *Michigan Business Tax Loss Adjustment for the Small Businesses Alternative Credit* (Form 4575), due to a Michigan Department of Treasury error in calculating the annual inflation adjustment for this item. For the 2012 form the correct figure is \$1,375,400 (not \$1,344,200, as shown on the form). The face of the form will not be altered to reflect this change. The instructions have been corrected, effective February 13, 2014. Taxpayers impacted by this change may elect to file an amended return.

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## Purpose

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To reduce the adjusted business income (ABI) or shareholder allocated income to qualify for the Small Business Alternative Credit (SBAC) or minimize the reduction percentage required.

If the ABI was less than zero in any of the five years immediately preceding the tax year for which a credit is being claimed, and the taxpayer received a Small Business Credit (SBC) under the Single Business Tax (SBT) or SBAC under MBT for that same year, the taxpayer may adjust for the loss before figuring eligibility for the SBAC. Business income for credit purposes is adjusted by using available loss from prior years on a first-in, first-out basis until those losses are extinguished. A loss adjustment will not affect a reduction to the SBAC based on gross receipts that exceed \$19,000,000. Also, it will not change the amount of compensation in column L for a C Corporation on the *MBT Schedule of Shareholders and Officers* (Form 4577).

**NOTE: Use Part 2 to determine the loss available from the five preceding periods. Calendar year taxpayers** will use the five years prior to the tax year: 2011, 2010, 2009, 2008, and one year of SBT, 2007. **Fiscal year taxpayers** will calculate using the short-period ending December 31, 2011, the fiscal year ending in 2011, and the fiscal years ending in 2010, 2009 and 2008.

**Fiscal Year Filers:** See “Supplemental Instructions for Standard Fiscal MBT Filers” in the *MBT Forms and Instructions for Standard Taxpayers* (Form 4600) for additional information.

**NOTE:** Although this form is formatted for Corporations, it can be used by other types of entities with minor adjustments. See instructions for further details.

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## Special Instructions for Unitary Business Groups (UBGs)

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The ABI disqualifier must be calculated by the UBG by combining the ABIs of its members. Likewise, to reduce an ABI disqualifier of the UBG, loss adjustment must be calculated on a group level and used against the group’s ABI. Loss used at the group level is independent of the loss available at the member level.

Disqualifiers based on shareholder or partner allocated income must be determined on a member by member basis. If any shareholder or partner has allocated income in excess of \$180,000, the loss adjustment must be calculated on a member by member basis for any and all members for which it may

apply. Loss used at a member level does not reduce the group’s available loss.

**NOTE:** Members with available loss adjustment must complete a copy of Form 4575 using member data, referred to here as a member copy or member form. The combined UBG member data is displayed on a separate Form 4575 identified as “Group Copy for ABI.” Details regarding the forms are addressed further in these instructions.

**NOTE:** The usage of loss adjustment for one disqualifier does not affect the available loss adjustment for the other disqualifier. This form will accommodate the separate maintenance of loss adjustment available for the UBG for both the ABI (Group Copy for ABI) and allocated income (separate member copy) disqualifiers. For years in which a member was not part of the UBG, the UBG will use that member’s available loss from those separate years on a first-in, first-out basis until those losses are consumed or extinguished.

If one or more members exceed the shareholder income disqualifier, only those members with shareholder income disqualifiers must file a Form 4575, using member-only (pro forma) figures in lines 4 through 16 on each member form.

If the UBG’s ABI exceeds the threshold, one Form 4575 must be filed to determine the UBG’s business income loss adjustment, which will be calculated on a group basis (the Group Copy for ABI, detailed below). For years in which a member was not part of the UBG, the UBG will use that member’s available loss from those separate years on a first-in, first-out basis until those losses are extinguished. These amounts are calculated initially at the member level but used and maintained for use in future years on the Group Copy for ABI. Supporting 4575 forms must be filed by each member who has a loss available from the separate years that is used against the UBG’s ABI disqualifier (member forms). For members who do not exceed the credit’s shareholder income threshold, only Part 2, lines 10 through 13, of Form 4575 need to be completed on the member form. For members who also exceed the credit’s shareholder income threshold, lines 4 through 16 of the member form must be completed. Member forms must be completed using member-only figures.

## Shareholder Income Disqualifier

Any member whose shareholder income creates a partial or complete disqualification, and that has loss available to resolve that disqualification in whole or in part, must file Form 4575. Leave lines 1 through 3 blank. Complete line 4 (using a pro forma figure) and lines 5 through 16, all with data for the reporting member only. For years that the member was part of the UBG, pro forma figures will be entered in lines 11 through

13; however, the member cannot complete these lines for a tax year that it was part of the UBG and the UBG did not receive the SBAC. The member may complete these lines for a tax year that it was **not** a member of the UBG and it received the SBC or SBAC, regardless of whether the UBG received the credit in that same year. Lines 14 through 16 on the member's Form 4575 will reflect the usage of loss adjustment to resolve the allocated income disqualifier only. The use of loss adjustment to resolve the ABI disqualifier will be maintained on the Group Copy for ABI.

**NOTE:** If any member still has a total disqualification on this basis (greater than \$180,000) after completing its own Form 4575 as described above, the UBG is disqualified from the SBAC. Do not proceed with these instructions. However, if each member's shareholder income disqualification is fully resolved or reduced to a partial disqualification by this method, continue below to compute the groupwide ABI loss adjustment required.

### Adjusted Business Income Disqualifier

This disqualifier is calculated at the group level. If the UBG has ABI in excess of \$1,375,400, the UBG must complete one group Form 4575. The groupwide Form 4575 will calculate loss available from the UBG's prior tax years as well as organize the members' available loss that may be used against this disqualifier. These member amounts are calculated initially at the member level but used and maintained for use in future years on the Group Copy for ABI.

In the Taxpayer Name field at the top of the page, enter the Designated Member's (DM's) name followed by the DM's Federal Employer Identification Number (FEIN) or Michigan Department of Treasury (TR) assigned number. In the Unitary Business Groups Only field, enter "GROUP COPY FOR ABI," and leave FEIN or TR Number field blank. On this group copy of Form 4575, enter groupwide data for lines 1 through 3. Leave lines 4 through 9 blank. Complete lines 10 through 16 following line-specific instructions.

To reduce the UBG's ABI disqualifier, the group will use its available loss from a prior tax period when the UBG received the SBAC, as well as a member's available loss from a tax year when it received the SBC or SBAC and was not part of the UBG (member's separate year). However, the group may not use a member's separately calculated available loss for a tax year when the member was part of the UBG to reduce the group's ABI disqualifier.

To reduce the UBG's ABI disqualifier, available loss is used on a first-in, first-out basis until those losses are extinguished. For the purposes of completing Part 2, if a member's separate year does not share a common year end with the UBG, use a separate column for that member. If some members' separate years share a common year end, total the amount of those members' available loss in a single column. Arrange all of the columns in chronological order. If additional columns are needed to accommodate the five preceding periods, create and attach a table comparable to that found in lines 10 through 16. Apply to that custom table the calculations described in the form text and instructions for lines 10 through 16.

Lines 14 through 16 on the Group Copy for ABI will reflect the usage of loss adjustment to resolve the ABI disqualifier

and the maintenance of loss adjustment available for future years (within the five year statutory period). Loss adjustment used for the ABI disqualifier is not recorded on the member copy of Form 4575. However, loss adjustment used for the ABI disqualifier from a member's separately filed years should be tracked in the taxpayer's records. Any ABI loss adjustment remaining from a member's separately filed years will be available to that member in the event the member leaves the UBG prior to complete usage of the loss adjustment available by the UBG. See the "Supplemental Instructions for Standard Members in UBGs" section in Form 4600 for details.

**NOTE:** If the UBG still has a disqualification on this basis (greater than \$1,375,400) after completing the group's Form 4575 as described above, the UBG is disqualified from the SBAC. Do not proceed with these instructions.

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### Line-by-Line Instructions

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*Lines not listed are explained on the form.*

Dates must be entered in MM-DD-YYYY format.

**Name and Account Number:** Enter name and account number as reported on page 1 of the *MBT Annual Return* (Form 4567).

**UBGs:** Complete one form for each member for whom this schedule applies. Enter the DM's name in the Taxpayer Name field and the member to whom the schedule applies on the line below. For the form that determines the UBG's ABI loss adjustment, enter the DM's name and FEIN in the first identification line, and "GROUP COPY FOR ABI" and no FEIN in the second identification line.

### Part 1: Current Year Amounts

Use Part 1 to determine the amount of loss adjustment necessary to qualify for the SBAC.

If the taxpayer is not eligible for the credit because the ABI exceeds \$1,375,400 (\$180,000 for individuals), complete lines 1 through 3.

If the taxpayer is not eligible because a shareholder's allocated income exceeds \$180,000, or a partner's distributive income exceeds \$180,000, complete lines 4 through 9 for the shareholder(s) or partner(s) creating the disqualifier. The loss adjustment required is the largest amount needed to eliminate all allocated income disqualifiers.

**Partnerships:** Form 4575 is formatted for Corporations. To use it for a Partnership, make these changes:

Enter on line 6 any guaranteed payments made to the partner creating a \$180,000 disqualifier.

On line 8, divide by the percentage of ownership from column C of the *MBT Schedule of Partners* (Form 4578).

**NOTE:** A member of a Limited Liability Company (LLC) is characterized for MBT purposes as a partner, shareholder, or owner, based on the federal characterization of the LLC. An LLC taxed as a Partnership for federal purposes must file as a Partnership for MBT. Similarly, an LLC taxed as a C Corporation or S Corporation for federal purposes must file under that same status for MBT.

**NOTE:** In general, a federally disregarded entity is required to file as if it were a sole proprietorship if owned by an individual, or a branch or division if owned by another business entity.

**Reduced SBAC:** A reduction of the SBAC is required if an Individual, a partner in a Partnership, a shareholder of a Corporation, or an officer of a C Corporation has allocated income after loss adjustment of more than \$160,000. This reduction is based on the Individual/partner/officer/shareholder with the largest allocated income.

Complete lines 4 through 9 for the shareholder or partner creating the need to reduce the SBAC.

Form 4575 should always be calculated initially using \$160,000 on line 5. This calculation will establish taxpayer eligibility without the need to reduce the SBAC. However, if the total loss available for the current year on line 13 does not equal or exceed the loss adjustment required on line 9, the taxpayer may still calculate a lesser loss adjustment to claim a reduced credit.

Try the calculation more than once. Substitute the numbers shown on the chart in the instructions for line 5, in order to maximize the claimed SBAC.

**Tax Year Less Than 12 Months:** Business income and shareholder disqualifiers must be calculated on an annualized basis. Enter annualized numbers on lines 1, 4, and 6. Part-year shareholders also must annualize compensation and report that figure on line 6.

**Annualizing**

To annualize, multiply each applicable amount, ABI, or shareholder compensation, by 12 and divide the result by the number of months the business operated. Generally, a business is considered in business for one month if the business operated for more than half the days of the month.

**NOTE:** If the business was in operation for less than a month it is considered to have been in business for 1 month.

**Line 4: UBGs:** When calculating the amount of loss adjustment needed to reduce a member’s shareholder income disqualifier, the member should calculate a pro forma of the *MBT Common Credits for Small Businesses* (Form 4571) for the purpose of completing this line.

**Line 5:** Form 4575 should always be calculated initially using \$160,000. This calculation will establish taxpayer eligibility without the need to reduce the SBAC. However, if the total loss available for the current year on line 13 does not equal or exceed the loss adjustment required on line 9, the taxpayer may still calculate a lesser loss adjustment to claim a reduced credit.

| Line 5     | Eligible % of Credit |
|------------|----------------------|
| \$ 160,000 | 100% - no reduction  |
| \$164,999  | 80%                  |
| \$169,999  | 60%                  |
| \$174,999  | 40%                  |
| \$180,000  | 20%                  |

**Part 2: Available Loss**

Use Part 2 to determine the loss available from the five preceding periods. Do not enter a negative sign in front of the loss amount.

Complete lines 10 through 16 one column at a time. For lines 11 through 16, complete only columns for periods that reported a loss **and** received an SBC or SBAC.

**Line 10:** Enter each tax year end date for periods where loss occurred. Begin with the earliest year in the left column.

**Line 11:** Enter (as a positive number) the negative ABI from Form 4571, line 8, for tax years where an SBAC was received.

**Calendar year taxpayers:** For SBT tax years, enter the ABI from the SBT Credit for Small Businesses and Contribution Credits (Form C-8000C), line 9, for each tax year that reported a loss and received an SBC.

**UBGs:** When completing a member’s form, this line is calculated using member specific (pro forma) data. Note, however, the member cannot enter an ABI amount for a tax year that it was part of the UBG and the UBG did not receive the SBAC. The member may, however, enter an ABI amount for a tax year that it was **not** a member of the UBG and it received the SBC or SBAC, regardless of whether the UBG received the credit in that same year.

When completing the Group Copy for ABI, enter the sum of the following: 1) UBG’s negative ABI for tax years it received the SBAC, plus, 2) a member’s negative ABI for a tax year when it received the SBC or SBAC and was **not** part of the UBG. These member amounts are calculated initially at the member level but used and maintained for use in future years on the Group Copy for ABI.

**Line 12:** Enter the amount of loss entered on line 11 that was used as an adjustment in a prior period (including loss adjustment used in SBT periods).

**UBGs:** When completing the Group Copy for ABI, if a member’s negative ABI was included on Line 11 (the member received a credit and was not part of the UBG in the tax year the credit was received), include any loss adjustment used by that member in a prior period to offset an ABI disqualifier (including loss adjustment used in SBT periods). Also enter any groupwide loss used against the UBG’s ABI disqualifier in a prior period.

**Line 13:** Subtract line 12 from line 11 to arrive at loss available on the current return. If less than zero, enter zero; no loss is available.

**UBGs:** On the Group Copy for ABI, if the group’s membership has not changed, that is, no member has joined or left the group since the filing of the prior year’s return, the amounts calculated on line 13 should equal the amounts on line 16 of the prior year’s corresponding columns. If membership for this year is different, these amounts may not be the same. See the “Supplemental Instructions for Standard Members in UBGs” section in Form 4600 for details.

**Line 14:** Enter the amount from line 3 or line 9, whichever is larger, in the first column where a loss is available on line 13. In subsequent columns, enter amount from line 15 of the previous applicable column.

**UBGs:** When completing a member’s form for the purpose of reducing the shareholder income disqualifier, enter the amount from line 9.

When completing the Group Copy for ABI, enter the amount from line 3.

**Line 15:** If line 14 is larger than line 13, subtract line 13 from line 14. Enter here and on line 14 of the next column where a loss is available on line 13.

**Line 16:** If line 13 is larger than line 14, subtract line 14 from line 13. This amount is available to use in subsequent periods.

**NOTE:** To benefit from a loss adjustment, the total loss available for the current year, line 13, must equal or exceed the loss adjustment required on line 14.

The function of this form is to demonstrate that a taxpayer that otherwise would have been disqualified from the SBAC due to ABI, or fully or partially disqualified due to an owner's allocated income is, after application of loss adjustment, allowed to claim a full or partial SBAC.

If loss adjustment is successfully applied to cure an ABI disqualifier, there is no calculated figure from this form that feeds to another form. Simply ignore the apparent disqualification on Form 4571, line 8 and proceed with calculating the SBAC on the remainder of Form 4571.

If loss adjustment is successfully applied to fully or partially cure an owner's allocated income disqualifier, this will be demonstrated by the final applicable column of line 15 being blank. In that event, carry the number from line 5 of this form to Form 4571, line 11 and proceed with the calculation there.

***Include completed Form 4575 as part of the tax return filing.***