







# Instructions for Form 4894

## Corporate Income Tax (CIT) Schedule of Shareholders and Officers

### For all Corporations claiming the Small Business Alternative Credit

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#### Purpose

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To determine eligibility of corporations to qualify for the Small Business Alternative Credit (SBAC). **This form must be included when filing *CIT Small Business Alternative Credit (Form 4893)*.**

*Corporation* means a taxpayer that is required or has elected to file as a C Corporation under the Internal Revenue Code (IRC). Corporation includes a Limited Liability Company that has elected to be taxed federally as a C Corporation.

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#### Special Instructions for Unitary Business Groups (UBGs)

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The allocated income disqualifier is based on all items paid or allocable to a shareholder or officer by all members of the UBG. All items paid or allocable to a single individual must be combined when calculating this disqualifier.

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#### General Instructions

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If claiming the SBAC, complete this form and include it as part of the annual return to report:

- Shareholder and corporate officer qualifications for the SBAC;
- Compensation and director fees of active shareholders and all officers for the computation of the SBAC.

*Officer* means an officer of a corporation including all of the following:

- (i) The chairperson of the board.
- (ii) The president, vice president, secretary, or treasurer of the corporation or board.
- (iii) Persons performing similar duties and responsibilities to persons described in subparagraphs (i) and (ii), that include, at a minimum, major decision making.

*Shareholder* means a person who owns outstanding stock in a corporation or is a member of a business entity that files as a corporation for federal income tax purposes. An individual is considered the owner of the stock, or the equity interest in a business entity that files as a corporation for federal income tax purposes, owned directly or indirectly, by or for family members as defined by IRC § 318(a)(1).

A *family member*, as defined by IRC § 318(a)(1), includes spouses, parents, children and grandchildren.

**NOTE:** Rules of attribution in IRC § 318(a)(1) do not differentiate between an adult and a minor child.

*Outstanding stock* means all stock of record, regardless of class, value, or voting rights, but outstanding stock does not include treasury stock.

All attributable family members of persons directly owning stock during the tax year must be listed in Parts 2 and 3.

#### Tax Years Less Than 12 Months

If the reported tax year is less than 12 months, shareholders' and officers' allocated income must be annualized to determine eligibility and reduction percentage. Where those same amounts are reported on SBAC forms, they are reported on forms as actual, not annualized, amounts.

**NOTE:** If a shareholder owned stock for less than the entire tax year of the corporation, or an officer served as an officer less than the entire tax year:

- For purposes of determining credit disqualifiers and credit reduction, compensation and director fees must be annualized. The determination of credit disqualifiers and credit reduction is performed off-form.
- For purposes of determining active shareholders, compensation, director fees, and dividends must be annualized. The determination of active shareholders is performed off-form.

#### Annualizing

Where annualization applies (see above NOTE), multiply each applicable amount by 12 and divide the result by the number of months in the tax year. Generally, a business counts a month if the business operated for more than half the days of the month. If the tax year is less than one month, consider the tax year to be one month for the purposes of the calculation.

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#### Line-by-Line Instructions

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Lines not listed are explained on the form.

**Taxpayer Name and Account Number:** Enter name and account number as reported on page 1 of the *CIT Annual Return (Form 4891)*. Also, the taxpayer Federal Employer Identification Number (FEIN) from the top of page 1 must be repeated in the proper location on pages 2 and 3.

**UBGs:** Complete one form for each member that is a standard member (i.e., not an insurance company or financial institution). Enter the Designated Member (DM) name in the Taxpayer Name field and the member to whom the schedule applies on the line below. On the copy filed to report the DM's data (if applicable), enter the DM's name and account number on each line. Also, the DM's FEIN and the member's FEIN from the top of page 1 must be repeated in the proper location on pages 2 and 3.

#### PART 1: QUALIFYING DATA FOR THE SMALL BUSINESS ALTERNATIVE CREDIT

**NOTE:** Parts 2 and 3 must be completed before Part 1.

**NOTE:** If more than one Form 4894 is included for a filer, sum the totals for lines 1 and 2 on the top form.

**Line 1:** Add compensation and director fees (column L) of all active shareholders and enter the result on line 1 and on Form 4893, line 7. Report on line 1 and on Form 4893, line 7 actual, not annualized, amounts.

An active shareholder:

- Is a shareholder of the corporation, including through attribution, AND
- Owns at least 5 percent of outstanding stock, including through attribution (column F = 5 percent or more), AND
- Receives at least \$10,000 in compensation, director fees, or dividends from the business (sum of columns I and L = \$10,000 or more). Important: For short-period returns or a part-year shareholder, compensation, director fees, and dividends of each individual must be annualized to meet this requirement. Perform annualized calculations off-form.

**Line 2:** Add compensation and director fees (column L) of all corporate officers who are not active shareholders and enter the result on line 2 and on Form 4893, line 8. To determine which officers are not active shareholders, use the definition of active shareholders under line 1.

**PART 2: SHAREHOLDERS AND OFFICERS**

**Line 3 (Columns A through N):** In column A, assign numbers (beginning with 1) to all shareholders and officers in order of percentage of stock ownership (percentage in column G), starting with the highest percentage first. Repeat this numbering in Part 2, column H, and Part 3, column O. It is essential that this numbering system is followed. All shareholders' family members, as defined by IRC § 318(a)(1), are considered shareholders and must be listed in Parts 2 and 3.

See definitions of officer, shareholder, family member, and

outstanding stock in the general instructions for this form.

If more lines are needed for listing the shareholders and officers, include additional copies of this form. Complete the taxpayer name and account number on each copy (and UBG member if applicable), and lines 3 and 4 as necessary. If using more than one copy of the form, continue the sequential numbering system for the Member Number in columns A, H, and O.

**Columns B and C:** Identify each shareholder and corporate officer by name and Social Security number. Corporations, Trusts, and Partnerships should be identified using the FEIN.

**NOTE: Column C:** An individual or foreign entity that does not have a Social Security number or FEIN may enter in Column C "APPLD FOR" (an abbreviation for "applied for") or "FOREIGNUS" (an abbreviation for "foreign filer").

**Column E:** Enter the percentage of outstanding stock each shareholder or corporate officer owns directly. If a shareholder owned stock for a period less than the corporation's tax year, multiply that shareholder's percentage of ownership by the number of months owned and divide the result by the number of months in the corporation's tax year.

Taxpayers must account for 100 percent of the stock. If it is not accounted for, processing of the return may be delayed.

**Column F:** Enter the percentage of outstanding stock each shareholder owns, including through attribution of ownership from family members under IRC § 318(a)(1).

**ATTRIBUTION EXAMPLE:**

<b>Larry David Stone</b>	Husband of Betty Stone, Father of Mary Stone, Stepfather of Tammie Rock, Step Grandfather of Kathy Rock
<b>Betty Ann Stone</b>	Daughter of Bob Pebble, Wife of Larry Stone, Mother of Tammie Rock, Stepmother of Mary Stone, Grandmother of Kathy Rock
<b>Mary Elizabeth Stone</b>	Daughter of Larry Stone, Stepdaughter of Betty Stone
<b>Tammie Marie Rock</b>	Daughter of Betty Stone, Stepdaughter of Larry Stone, Spouse of Steve Rock, Mother of Kathy Rock, Granddaughter of Bob Pebble
<b>Steve Carl Rock</b>	Spouse of Tammie Rock, Father of Kathy Rock, Brother of Mike Rock
<b>Kathy Evelyn Rock</b>	Daughter of Tammie and Steve Rock, Granddaughter of Betty Stone, Step Granddaughter of Larry Stone
<b>Mike Joseph Rock</b>	Brother of Steve Rock
<b>Bob Kenneth Pebble</b>	Father of Betty Stone, Grandfather of Tammie Rock
<b>Terry Robert Marble</b>	Friend

**Part 2: Shareholders and officers** - See instructions

3. <b>A</b>	<b>B</b>
Member Number	Name of shareholder (including corporation, trust, partnership, or family member who is a shareholder through attribution) or officer (Last, First, Middle)
1	Stone, Larry David
2	Stone, Betty Ann
3	Stone, Mary Elizabeth
4	Rock, Tammie Marie
5	Rock, Steve Carl
6	Rock, Kathy Evelyn
7	Rock, Mike Joseph
8	Pebble, Bob Kenneth
9	Marble, Terry Robert

**Part 3: List of family members and their corresponding relationship type**

4. <b>O</b>	<b>P</b>	<b>Q</b>	<b>R</b>	<b>S</b>	<b>T</b>
Member Number	Spouse	Parent	Child	Grandchild	Check (X) if No Attributable Relationship
1	2		3		
2	1	8	4	6	
3		1			
4	5	2	6		
5	4		6		
6		4-5			
7					X
8			2	4	
9					X

**Column G:** When reporting ownership of a person who is an active shareholder, do not include in Column G any stock ownership attributed to this person from another active shareholder. See definition of active shareholders in the Part 1 instructions. For the purposes of determining disqualification from the SBAC, an active shareholder's share of business income is not attributed to another active shareholder.

**EXAMPLE:** In this case, the husband and daughter are active shareholders because their total compensation, director fees, and dividends from the business are greater than \$10,000 and they own more than 5% of stock (column E). The wife and son are not active because their total compensation, director fees, and dividends from the business are less than \$10,000 (even though they own more than 5% of stock).

Stock Percentage			
	Column E	Column F	Column G
Husband (active)	40%	100% (all shareholders)	70% (husband/wife/son)
Wife (inactive)	10%	100% (all shareholders)	100% (all shareholders)
Son (inactive)	20%	70% (husband/ wife/son)	70% (husband/wife/son)
Daughter (active)	30%	80% (husband/ wife/daughter)	40% (wife/daughter)

**Column I:** Enter total dividends received by each shareholder during the tax year from this business (used to determine active shareholders).

**Column J:** Enter salaries, wages, and director fees that are attributable to each shareholder or corporate officer. Compensation paid by a professional employer organization to the officers of a client (if the client is a corporation) and to employees of the professional employer organization who are assigned or leased to and perform services for a client must be included in determining the eligibility of the client for this credit.

**NOTE:** If a shareholder owned stock for less than the entire tax year of the corporation, or an officer served as an officer less than the entire tax year, report only the salaries, wages and director fees attributable while serving as an officer or shareholder. These amounts must be annualized when determining disqualifiers, but should be reported as actual amounts on this form.

**NOTE:** All compensation must be included, whether or not the shareholder or corporate officer worked in Michigan.

**Column K:** Enter employee insurance payments and pensions that are attributable to each shareholder or officer.

**NOTE:** If a shareholder owned stock for less than the entire tax year of the corporation, or an officer served as an officer less than the entire tax year, report only the employee insurance payments, pensions, etc., that are attributable while serving as an officer or shareholder. These amounts must be annualized when determining disqualifiers, but should be reported as actual amounts on this form.

**NOTE:** All insurance and pension payments must be included, whether or not the shareholder or corporate officer worked in Michigan.

**Column M:** Multiply the percentage in column G by line 6 on Form 4893.

**UBGs:** Multiply the percentage in column G by the sum of lines 12, 26 and 29 from the *CIT Data on UBG Members* (Form 4897).

**For Tax Years Less Than 12 Months:** Shareholder compensation must be annualized when determining disqualifiers, but should be reported as actual amounts on this form.

### PART 3: LIST OF FAMILY MEMBERS AND THEIR CORRESPONDING RELATIONSHIPS

Columns P through S represent relationships affected by attribution.

For each shareholder listed in Part 2, column A, enter the corresponding number of the shareholder's spouse, parent, child, or grandchild, if any, listed in Part 2, column A.

If more than one number is entered in boxes P through S, separate numbers with a dash. For example, if a family member has three children, each child's member number should appear in the "Child" column with dashes separating them ("2-3-4").

Do not use a dash to imply included numbers (such as "5-8" meaning "5 through 8"), but instead include each member number ("5-6-7-8"). Do not use commas.

**EXAMPLE (SEE THE ATTRIBUTION EXAMPLE ON THE PREVIOUS PAGE):** Kathy Rock's (6) parents (4 and 5) work for the company. Kathy will list "4-5" in column Q.

**NOTE:** If the space provided in the line 4 columns is not adequate to list all of the corresponding relationships, include a separate sheet of paper with the member number from column O, the corresponding relationship, and the number of the member(s) with that relationship.

**Column T:** Check column T for each shareholder for whom columns P through S are blank (no attributable relationship exists).

***Include completed Form 4894 as part of the tax return filing.***