

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

Issued under authority of Public Act 38 of 2011.

Taxpayer Name	Federal Employer Identification Number (FEIN)
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Use this form to qualify for an otherwise disallowed Small Business Alternative Credit by adjusting current year adjusted business income (ABI). This is available only if a taxpayer had a negative adjusted business income in any of the five tax years ("loss year") immediately preceding this tax year and received a Single Business Tax Small Business Credit, Michigan Business Tax Small Business Alternative Credit or Corporate Income Tax Small Business Alternative Credit in the loss year. Unitary Business Groups, see instructions.

### PART 1: CURRENT YEAR AMOUNTS FOR ABI DISQUALIFIER

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 4893, line 9.....	1.		00
2. Business Income Disqualifier .....	2.	1,300,000	00
3. Loss adjustment needed. Subtract line 2 from line 1. If less than zero, enter zero.....	3.		00

### PART 2: AVAILABLE LOSS FOR ABI DISQUALIFIER

**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 5 through 10.

Complete line 4 with the end dates of the five preceding tax periods (oldest at the left). Then complete lines 5 through 10, 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.

4. Tax year end date (MM-DD-YYYY).....					
5. Adjusted business income.....					
6. Loss used on prior returns.....					
7. Loss available for current return.....					
8. Loss adjustment needed for current return.....					
9. Additional loss adjustment needed.....					
10. Loss adjustment carryforward .....					

**PART 3: CURRENT YEAR AMOUNTS FOR SHAREHOLDER INCOME DISQUALIFIER**

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

11. Enter the amount from Form 4893, line 6a (see instructions) .....	11.		00
12. Shareholder Income Disqualifier (See chart in instructions).....	12.		00
13. Enter compensation and director fees from Form 4894, line 3, column L, of the shareholder creating the disqualifier or reduction* .....	13.		00
14. Subtract line 13 from line 12. If less than zero, enter as a negative number.....	14.		00
15. Divide line 14 by the percent of ownership from Form 4894, line 3, column G, for the shareholder on line 13 .....	15.		00
16. Loss adjustment needed. Subtract line 15 from line 11 .....	16.		00

\* **Note:** If compensation exceeds \$180,000 for any shareholder or officer, a Small Business Alternative Credit cannot be claimed nor can a loss adjustment be used to reduce compensation from Form 4894, line 3, column L.

**PART 4: AVAILABLE LOSS FOR SHAREHOLDER INCOME DISQUALIFIER**

**Read instructions before completing Part 4.** Use Part 4 to determine the loss available from the five preceding periods. Do not enter a negative sign in front of the loss amounts in lines 18 through 23.

Complete line 17 with the end dates of the five preceding tax periods (oldest at the left). Then complete lines 18 through 23, 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.

17. Tax year end date (MM-DD-YYYY) .....					
18. Adjusted business income.....					
19. Loss used on prior returns.....					
20. Loss available for current return.....					
21. Loss adjustment needed for current return.....					
22. Additional loss adjustment needed.....					
23. Loss adjustment carryforward .....					

# Instructions for Form 4895, Corporate Income Tax (CIT) Loss Adjustment for the Small Business Alternative Credit

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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), a SBAC under the Michigan Business Tax (MBT), or a SBAC under the Corporate Income Tax (CIT) for that same year, the taxpayer may adjust for the loss before figuring eligibility for the current period 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 consumed (by use) or extinguished (by age). A loss adjustment will not affect a reduction to or elimination of 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 *CIT Schedule of Shareholders and Officers* (Form 4894).

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## Special Instructions for UBGs

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The ABI threshold 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.

**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 and allocated income 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.

### Adjusted Business Income Disqualifier

This disqualifier is calculated at the group level. If the UBG has a group wide ABI of \$1,300,000 or more then the entire UBG is disqualified.

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.

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 under MBT 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 consumed or 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 4 through 10. Apply to that custom table the calculations described in the form text and instructions for lines 4 through 10.

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 available loss adjustment by the UBG, or expiration due to age. See the "Supplemental Instructions for Standard Members in UBGs" section in Form 4890 for details.

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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 *CIT Annual Return* (Form 4891).

**UBGs:** Enter the DM's name in the Taxpayer Name field and FEIN on the FEIN line.

### Part 1: Current Year Amounts for ABI Disqualifier

Use Part 1 and Part 3 to determine the amount of loss adjustment necessary to qualify for the SBAC.

If the taxpayer is not eligible for the credit because its ABI exceeds \$1,300,000, complete lines 1 through 10.

**Tax Year Less Than 12 Months:** Business income and shareholder disqualifiers must be calculated on an annualized basis. Enter annualized numbers on lines 1, 11, and 13.

### Annualizing

To annualize, multiply each applicable amount, ABI, or shareholder compensation, by 12 and divide the result by the number of months in the tax year.

### Part 2: Available Loss for ABI Disqualifier

Use Part 2 to determine the loss available from the five preceding periods. Report the loss amount as a positive number

Complete lines 4 through 10, one column at a time. Complete only columns for periods that reported a loss **and** received an SBC or SBAC. If the taxpayer did not have a loss or did not receive a SBAC for a tax year, leave that column blank.

**Line 4:** Enter each tax year end date for periods where loss occurred. Begin with the earliest year in the left column.

Each short period return is treated as a separate period when determining the available loss.

**Line 5:** Enter (as a positive number) the negative ABI from Form 4893, line 9, for tax years where an SBAC was received. 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.

For MBT years, enter the ABI from the *Michigan Business Tax Common Credits for Small Businesses* (Form 4571), line 8.

**UBGs:** When completing this line for a UBG, 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 6:** Enter the amount of loss entered on line 5 that was used as an adjustment in a prior period (including loss adjustment used in SBT periods and MBT periods).

**UBGs:** If a member's negative ABI was included on Line 5 (the member received an SBAC 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, MBT and CIT periods). Also enter any groupwide loss used against the UBG's ABI disqualifier in a prior period.

**Line 7:** Subtract line 6 from line 5 to arrive at loss available on the current return. If less than zero, enter zero; no loss is available.

**UBGs:** 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 7 should equal the amounts on line 10 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 4890 for details.

**Line 8:** Enter the amount from line 3, in the first column where a loss is available on line 7. In subsequent columns, enter amount from line 9 of the previous applicable column.

**Line 9:** If line 8 is larger than line 7, subtract line 7 from line 8. Enter here and on line 8 of the next column where a loss is available on line 7.

**Line 10:** If line 7 is larger than line 8, subtract line 8 from line 7. 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 7, must equal or exceed the loss adjustment required on line 8.

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 owner's allocated income, after application of loss adjustment, is 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 4893, line 9 and proceed with calculating the SBAC on the remainder of Form 4893.

If loss adjustment is successfully applied to fully or partially cure an owner's allocated income disqualifier, this will be demonstrated by the final column of line 9 being zero. In that event, carry the number from line 12 of this form to Form 4893, line 9, and proceed with the calculation there.

### **Part 3: Current Year Amounts for Shareholder Allocated Income Disqualifier**

**UBGs, see Special Instructions.**

If the taxpayer is not eligible because a shareholder's allocated income exceeds \$180,000, complete lines 11 through 23 for the shareholder(s) creating the disqualifier. The loss adjustment required is the largest amount needed to eliminate all allocated income disqualifiers.

**Reduced SBAC:** A reduction of the SBAC is required if a shareholder or an officer has allocated income after loss adjustment of more than \$160,000. This reduction is based on the officer or shareholder with the largest allocated income. This is determined at a group level.

Any UBG that has a shareholder whose income creates a partial or complete disqualification, and that has loss available to resolve that disqualification in whole or in part, must file Form 4895. A shareholder or officer must combine all items paid or allocable to the shareholder or officer by all members of the group when calculating the allocated income disqualifier. **A shareholder that is paid or allocated items of income from more than one member of the UBG must calculate Part 3 using the Loss Adjustment for UBGs Worksheet and Instructions.**

#### **Shareholders not allocated Items from Multiple Sources, Special Instructions:**

Complete lines 11 through 16 for the shareholder creating the need to reduce the SBAC.

**Line 11:** When calculating this line, the shareholder must calculate a pro forma CIT Small Business Alternative Credit (Form 4893) for the purpose of completing this line.

**Line 12:** Form 4895 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 20 does not equal or exceed the loss adjustment required on line 16, 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 below on line 12 to maximize the claimed SBAC within the limits of available loss adjustment:

## DISQUALIFIER CHART

Line 12	Eligible % of Credit
\$ 160,000	100% - no reduction
\$164,999	80%
\$169,999	60%
\$174,999	40%
\$180,000	20%

### Part 4: Available Loss for shareholder allocated income disqualifier

**UBGs, see Special Instructions.**

Use Part 4 to determine the loss available from the five preceding years.

**Line 17:** Enter each tax year end date for periods where loss occurred. Begin with the earliest year in the left column. Each short period return is treated as a separate period when determining the available loss.

**Line 18:** Enter (as a positive number) the negative ABI from Form 4893, line 9, for tax years where an SBAC was received. 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.

For MBT years, enter the ABI from the *Michigan Business Tax Common Credits for Small Businesses* (Form 4571), line 8.

**Line 19:** Enter the amount of loss entered on line 18 that was used as an adjustment in a prior period (including loss adjustment used in SBT periods and MBT periods).

**Line 20:** Subtract line 19 from line 18 to arrive at loss available on the current return. If less than zero, enter zero; no loss is available.

**Line 21:** Enter the amount from line 16, in the first column where a loss is available on line 20 of the previous column.

**Line 22:** If line 21 is larger than 20, subtract line 20 from line 21. Enter here and on line 21 of the next column where a loss is available on line 20.

**Line 23:** If line 20 is larger than line 21, subtract line 21 from line 20. This amount is available to use in subsequent periods.

### Special Instructions for UBGs

#### Form 4895, Part 3: Special Instructions for UBGs

**A shareholder that is paid or allocated items of income from more than one member of the UBG must calculate Part 3 using the Loss Adjustment for UBGs Worksheet and Instructions.** If using the worksheet, enter the resulting numbers in Part 3 of Form 4895 only as instructed by these instructions and worksheet.

If more than one shareholder of the UBG has an allocated income disqualifier, begin this calculation with the shareholder with the highest disqualifier.

The worksheet should always be calculated initially using \$160,000 from the disqualifier chart. This calculation will establish taxpayer eligibility without the need to reduce the

SBAC. Try the calculation more than once. Substitute the numbers shown on the disqualifier chart when calculating line 8 of this worksheet to maximize the claimed SBAC within the limits of available loss adjustment.

**Shareholder Loss Adjustment Worksheet for Shareholder with Multiple Allocations, Special Instructions:** See the worksheet at the end of these instructions.

#### Form 4895, Part 4: Special Instructions for UBGs

This part must be completed on a member by member basis. Each member must determine its own, separately calculated loss adjustment for use against the allocated income disqualifier. This will require each member contributing to the disqualifier to calculate a pro forma CIT Small Business Alternative Credit (Form 4893) for the purpose of completing certain line items, as noted.

**Line 17:** follow general instructions on a member by member basis for each member listed on line 2 of the worksheet used for Part 3.

**Line 18:** On a member by member, pro forma basis: enter (as a positive number) the negative ABI from Form 4893, line 9, for tax years where an SBAC was received by the group or the member. 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. For MBT years, enter the ABI from the Michigan Business Tax Common Credits for Small Businesses (Form 4571), line 8.

**Line 19:** On a member by member, pro forma basis: enter the amount of loss entered on line 18 that was used as an adjustment in a prior period (including loss adjustment used in SBT periods and MBT periods).

**Line 20:** Subtract line 19 from line 18 to arrive at loss available on the current return for this member. If less than zero, enter zero; no loss is available.

**Line 21:** Enter the amount from line 12 from the worksheet for the member, in the first column where a loss is available on line 20 of the previous column.

**Line 22:** If line 21 is larger than 20, subtract line 20 from line 21. Enter here and on line 21 of the next column where a loss is available on line 20. Losses can only be used on a member by member basis for this disqualifier.

**Line 23:** If line 20 is larger than line 21, subtract line 21 from line 20. This amount is available to use in subsequent periods by the member.

Complete and file as many Part 4 schedules as required for members listed on line 2 of the worksheet used for Part 3.

**Include completed Form 4895 as part of the tax return filing.**

# Worksheet — Loss Adjustment for a Shareholder with Multiple Allocations

Begin this worksheet with information on the shareholder that has the highest disqualifier.

Shareholder Name	Shareholder FEIN
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“Member 1,” “Member 2,” and “Member 3” will reflect the data of the members allocating items or income to the shareholder listed above. Use additional worksheets if necessary, and combine the member data from all shareholder worksheets to create the shareholder total. Include all members allocating items or income to shareholder.

## PART A: ALLOCATED BUSINESS INCOME AND COMPENSATION

	MEMBER 1	MEMBER 2	MEMBER 3	SHAREHOLDER TOTAL
1. Business Income, from Form 4893, line 6a, for each member. Combine the amounts for all members for the Shareholder Total Business Income, and carry to Form 4895, line 11 ..... 1.				
2. Compensation, from Form 4894, line 3, column L ..... 2.				
3. Percentage of Ownership in Entity, from Form 4894 line 3, column G ..... 3.				

## PART B: CALCULATE SHAREHOLDER DISQUALIFIER

4. Share of Business Income, per member ..... 4.				
5. Shareholder disqualifier, line 2 plus line 4 ... 5.				
6. Disqualifying amount of business income, all members. Enter the total of line 4 for all members..... 6.				
7. Total disqualifier, all members. Enter the total of line 5 for all members ..... 7.				

## PART C: CALCULATE LOSS ADJUSTMENT NEEDED

8. Amount over disqualifier ..... 8.				
9. Percentage of disqualifier by member ..... 9.				
10. Proportionate share of disqualifier by member ..... 10.				
11. Amount from Form 4895, Line 15, for each member. Combine the amounts for all members, and carry the Shareholder Total to Form 4895, line 15..... 11.				
12. Loss Adjustment needed by member ..... 12.				
13. Total Loss Adjustment needed for Shareholder. This amount should equal Form 4895, line 16..... 13.				

See instructions on following page

## Instructions

### Worksheet — Loss Adjustment for a Shareholder with Multiple Allocations

**Line 1:** Enter the business income allocated to shareholder by each member listed. This number comes from Form 4893, line 6a; however, the shareholder must calculate a pro forma CIT Small Business Alternative Credit (Form 4893) by member listed, for the purpose of completing this line. Enter the total for all members and **carry to Form 4895, line 11.**

**Line 2:** Enter the compensation allocated to shareholder by each member listed; from 4894, line 3, column L.

**For Tax Years Less Than 12 Months:** Business Income and Shareholder compensation must be calculated on an annualized basis. Enter annualized numbers on lines 1 and 2 of the worksheet. To annualize, multiply each applicable amount, ABI, or shareholder compensation, by 12 and divide the result by the number of months in the tax year.

**Line 3:** Enter shareholder's percentage of ownership in each member listed; from Form 4894 line 3, column G.

#### Part B: Calculate Shareholder Disqualifier

**Line 4:** Multiply business income of each member listed by shareholder's percentage of ownership of that member, from line 3. Enter resulting share of business income per member.

**Line 5:** Add shareholder's compensation from line 2 to share of business income from line 4. Enter resulting disqualifier for shareholder per member.

#### Part C: Calculate Loss Adjustment Needed

**Line 8:** Subtract the disqualifier amount from the disqualifier chart from the total amount on line 7 of the worksheet. This is the amount over disqualifier. Start the calculation with \$160,000 from the chart.

**Line 9:** Divide line 4 by line 6 "total." Enter result per member. This is the percentage of the disqualifier amount contributed per member.

**Line 10:** Multiply percentage of disqualifier by member from line 9 by line 8 total, amount over disqualifier. Enter result per member. This is the proportionate share of the disqualifier contributed per member.

**Line 11:** Divide line 10 by line 3, percentage of ownership. Enter result per member. Enter total for all members in the "total" column. **Enter this amount on Form 4895, line 15.**

**Line 12:** Subtract line 11 from line 1. This is the loss adjustment needed by member.

**Line 13:** Add line 12 for all members. Enter total disqualifier needed for shareholder. **This amount should equal Form 4895, line 16.**

If more than one shareholder of the UBG has a potential allocated income disqualifier, move on to the shareholder with the next highest disqualifier. Begin the worksheet for the next shareholder by reducing line 1 per member on the second worksheet by line 12 per member from the first worksheet. This initial reduction will indicate whether more loss adjustment is needed for the second shareholder with the next highest disqualifier. Complete worksheet for second shareholder. If line 12 is negative, no additional loss adjustment is needed.

Complete and file as many Form 4895, Part 3, schedules and as many worksheets as necessary to properly calculate the loss adjustment.