

# Instructions for Form 4570, Michigan Business Tax (MBT) Credits for Compensation, Investment, and Research and Development

## Purpose

To claim the Compensation Credit, Investment Tax Credit (ITC), and the Research and Development Credit calculated here and carried to the *MBT Nonrefundable Credits Summary* (Form 4568).

**NOTE:** This form may be used by standard taxpayers to claim eligible credits and by financial institutions to claim the Compensation Credit only. Insurance companies use the *Miscellaneous Credits for Insurance Companies* (Form 4596) to claim credits for which they may be eligible.

The Compensation Credit and ITC together are limited to 52 percent of the total tax liability. The Research and Development Credit, combined with the Compensation Credit and ITC, are limited to 65 percent of the tax liability.

This form will also determine an ITC recapture that potentially could increase the tax liability.

**NOTE:** Beginning January 1, 2012, only those taxpayers with a certificated credit, which is awarded but not yet fully claimed or utilized, may elect to be MBT taxpayers. If a taxpayer files an MBT return and claims a certificated credit, the taxpayer makes the election to file and pay under the MBT until the certificated credit and any carryforward of that credit are exhausted. A taxpayer making a valid certificated credit election may also claim the credits on this form.

## Special Instructions for Unitary Business Groups

Credits are earned and calculated on either an entity-specific or group basis, as determined by the relevant statutory provisions for the respective credits. The credits on this form are calculated on a group basis. Intercompany transactions are not eliminated for the calculation of any credits. Assets transferred between members of the group are not considered capital investments in qualifying assets for purposes of calculating the ITC in Part 2. Credits are generally applied against the tax liability of the Unitary Business Group (UBG), unless otherwise specified by statute.

Complete one Form 4570 for the group.

## Line-by-Line Instructions

*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 applicable MBT annual return (either the *MBT Annual Return* (Form 4567) for standard taxpayers or the *MBT Annual Return for Financial Institutions* (Form 4590)).

### PART 1: COMPENSATION CREDIT

**UBGs:** If the taxpayer is a UBG, the Compensation Credit is calculated on the combined Michigan compensation of the UBG members. Intercompany transactions are not eliminated for this purpose.

**Line 2:** Enter compensation, as defined in Michigan Compiled Laws 208.1107(3), paid in the tax year on behalf of or for the benefit of employees, officers, or directors. Generally, under this definition, compensation includes, but is not limited to, payments that are subject to or specifically exempt or excepted from withholding under Internal Revenue Code (IRC) § 3401 through § 3406.

Compensation also includes fringe benefits and any earnings that are net earnings from self-employment, as defined under IRC § 1402, of the taxpayer, partner, or Limited Liability Company member of the taxpayer. Wages, salaries, fees, bonuses, commissions, and other payments made in the tax year on behalf of or for the benefit of employees, officers, or directors, as well as net earnings from self-employment, must be reported on a cash basis.

Payments made to a pension plan, retirement or profit sharing plan, employee insurance plans, and payments under health and welfare benefit plans, as well as the administration fees paid for the administration of the health and welfare benefit plan, are compensation. Compensation also includes certain payments made by licensed taxpayers that are statutorily identified. These compensation payments are calculated on a cash or accrual basis consistent with the taxpayer's method of accounting for federal income taxes. The statute provides for certain exclusions from compensation, including employee discounts on merchandise and services, payments for State and federal unemployment compensation and federal insurance contributions, and payments made to most independent contractors.

Expenses incurred for the benefit of the taxpayer rather than for the benefit of employees of the taxpayer are not compensation. Noncompensation expenses might include payments reported on a Form 1099 to an employee for the rental of a building or for interest income.

This credit is calculated on the taxpayer's Michigan compensation.

Compensation is "in this state" if (a) the individual's service is performed entirely within Michigan, or (b) the individual's service is performed both within Michigan and outside Michigan, but the services performed outside Michigan are incidental to the individual's service within Michigan.

**Example 1:** Sales Co. employs Salesperson whose territory includes both Detroit, Michigan, and Toledo, Ohio. Salesperson calls on customers located in both Michigan and Ohio. The compensation paid to Salesperson is not "compensation in this state" because Salesperson's activity is not limited solely to Michigan, and calling on customers in Ohio is not incidental to Salesperson's activity in Michigan.

**Example 2:** Manufacturer employs Engineer at its Michigan facility. Several times a year, Engineer travels out of state to meet with suppliers. Although Engineer performs services both within Michigan and outside Michigan, Engineer's out-of-state services are incidental to Engineer's services within Michigan. The compensation paid to Engineer is "compensation in this state."

## PART 2: INVESTMENT TAX CREDIT

Use Part 2 to determine the total eligible acquisitions and dispositions for the filing period. Complete Tables 1 through 6 (lines 35 through 42) before completing lines 4 through 16. If more space is needed for any assets acquired, sold, or disposed of in this tax year, include additional copies of page 3 or page 4 (as applicable) of the form identifying the name and account number at the top with only the additional applicable fields completed. Financial institutions and insurance companies do not qualify for this credit.

For tax years beginning after 2007, taxpayers may claim an ITC for a percentage of the net costs paid or accrued in the filing period for qualifying tangible assets physically located in Michigan. The assets must be of a type that are or will become eligible for depreciation, amortization, or accelerated capital cost recovery for federal income tax. Mobile tangible assets (defined in the instructions for line 8), wherever located, are subject to apportionment in the same manner as the tax base. Assets purchased or acquired after 2007 for use outside of Michigan and moved into Michigan during the filing period, also qualify for ITC. Disposition of an asset, or moving an asset out of Michigan, creates recapture that reduces the credit. If recapture exceeds the positive credit earned by acquisitions, the tax liability is increased.

**NOTE:** Recapture from dispositions during the filing period of assets acquired (or moved into Michigan) after 1999 and before 2008 is calculated on the *MBT Investment Tax Credit Recapture from Sale of Assets Acquired Under Single Business Tax* (Form 4585).

If, during the filing period, a taxpayer acquired depreciable real or personal property or disposed of depreciable real or personal property that was acquired in a tax year beginning after 1999, complete this form and include it as part of the annual return. If property disposed of during the filing period was acquired in a tax year beginning after 1999 and before 2008, also complete and include Form 4585.

**UBGs:** If the taxpayer is a UBG, the ITC is calculated on combined assets of standard members of the UBG. Assets transferred between members of the group are not a capital investment in qualifying assets for purposes of calculating this credit.

The following instructions for the Part 2 “Capital Investments (Acquisitions)” and “Recapture of Capital Investments (Dispositions)” sections provide information on completing the tables on pages 3 and 4 of this form. The instructions for Part 4 follow these sections.

### Capital Investments (Acquisitions)

**NOTE:** When completing tables 1 through 6, leave lines/boxes blank if they do not apply or if the amount is zero, unless otherwise instructed.

**NOTE:** For Tables 1 through 3, all events that have varying dates must be listed separately. “Various” is not a valid entry in a date field. Multiple acquisitions (or transfers) may be combined as one entry, subject to the following: all combined events must satisfy the terms of the table in which they are entered. “Date Acquired” (or “Date Physically Located in Michigan”) must be

the same for all events combined on a single line.

Cost includes costs of fabrication and installation.

**Table 1:** Enter a short description (for example, equipment, building, etc.), city or township in which the asset is located, date acquired, and cost paid or accrued of all eligible depreciable tangible assets located in Michigan that were acquired during the filing period.

If multiple pages of Form 4570, Table 1, are included, carry the grand total of all Table 1, column D, entries to line 4.

**Table 2:** Enter a short description (for example, equipment, automobile, etc.), city or township in which the asset is located, date physically located in Michigan, and adjusted basis (as calculated for federal purposes) as of the date moved of all eligible depreciable tangible assets purchased or acquired for use outside of Michigan after 2007 that were moved into Michigan during the filing period for a business use. Do not include mobile tangible assets (see below).

If multiple pages of Form 4570, Table 2, are included, carry the grand total of all Table 2, column D, entries to line 5.

**Table 3:** Enter a short description (for example, construction equipment, aircraft, etc.), the state in which the asset primarily was based during the tax year, date acquired, and cost paid or accrued during the filing period for all depreciable mobile tangible assets that were acquired during the filing period, whether located in Michigan or outside Michigan.

*Mobile tangible assets* are all of the following:

- Motor vehicles that have a gross vehicle weight rating of 10,000 pounds or more and are used to transport property or persons for compensation.
- Rolling stock (railroad freight or passenger cars, locomotives, or other railcars), aircraft, and watercraft used by the owner to transport property or persons for compensation or used by the owner to transport the owner’s property for sale, rental, or further processing.
- Equipment used directly in completion of, or in construction contracts for, the construction, alteration, repair, or improvement of property.

If multiple pages of Form 4570, Table 3, are included, carry the grand total of all Table 3, column D, entries to line 6.

### Recapture of Capital Investments (Dispositions)

Use this section to compute credit recapture from disposition (or moving out of Michigan) of tangible, depreciable real or personal property that was acquired in a tax year beginning after 2007. Recapture from the disposition of qualifying property that was acquired in a tax year beginning after 1999 but before 2008 is calculated on Form 4585 and reported here.

**NOTE:** A sale of qualifying property reported on the installment method for federal income tax purposes causes a recapture based upon the entire sale price in the year of the sale. The recapture is reduced by any gain reported in federal taxable income (as defined for MBT purposes) in the year of the sale. The gain attributable to the installment sale that is reported in subsequent years increases the credit

base (or reduces other sources of recapture) for those years. For property placed in service prior to January 1, 2008, gain reflected in federal taxable income (as defined for MBT purposes) is equal to the gain reported for federal purposes.

**UBGs:** If the taxpayer is a UBG, the recapture of capital investments is calculated on combined assets of standard members of the UBG. Assets transferred between members of the group are not a capital investment in qualifying assets for purposes of calculating this credit or its recapture. However, moving an asset outside of Michigan creates recapture, even if the transfer is to a member of the UBG.

### Using the Correct Tables to Calculate Recapture

Enter information on Tables 4, 5, 6 as explained below **ONLY** for assets that are being disposed of in the current filing period, and that were purchased, acquired, or moved into Michigan **ALSO** in the current filing period.

Information for assets disposed of in the current filing period and purchased, acquired, or moved into Michigan in tax years included in **PREVIOUS** filing periods must be entered on worksheets 1a, 1b, and 1c provided at the end of the instructions for this form. Recapture for assets that were acquired in a tax year beginning before 2008 and disposed of during the current filing period is reported on Form 4585.

The total credit recapture for assets reported on worksheets 1a, 1b, and 1c is calculated on Worksheet 2 at the end of this instructions, and will be reported on line 19 on this form. If the filer is also reporting SBT ITC recapture on Form 4585, add both the total sum from Worksheet 2, column U, and the amount from Form 4585, line 7 and enter the sum on line 19 on Form 4579 (this form).

**NOTE: For Tables 4 through 6,** all events that have varying dates must be listed separately. “Various” is not a valid entry in a date field. Multiple dispositions (or transfers) may be combined as one entry, subject to the following: All combined events must satisfy the terms of the table in which they are entered. “Date Acquired” must be the same for all events combined on a single line, and “Date Sold” (or “Date Transferred”) also must be the same.

**Table 4:** Enter all dispositions of depreciable tangible assets located in Michigan that were acquired or moved into Michigan in the current filing period, and were **ALSO** sold or otherwise disposed of during the current filing period. Give all information required for each disposition in columns A through F. In column A, enter a short description (for example, equipment, building, etc.). Enter gross sales price (net of costs of sale) in column E, and in column F, enter total gain or loss included in calculating federal taxable income (as defined for MBT purposes).

**NOTE:** Sales price includes any benefit derived from the sale.

If multiple pages of Form 4570, Table 4, are included, carry the grand total of all line 39 entries to line 10.

**Table 5:** Enter all dispositions of depreciable mobile tangible assets that were acquired in the current filing period and were **ALSO** sold or otherwise disposed of during the current filing period. Give all information required for each disposition in columns A through F. In column A, enter a short description

(for example, construction equipment, aircraft, etc.). Enter gross sales price (net of costs of sale) in column E, and in column F, enter total gain or loss included in calculating federal taxable income (as defined for MBT purposes).

For property placed in service in the current filing period, gain reflected in federal taxable income (as defined for MBT purposes) is the gain reported federally except that it shall be calculated as if IRC § 168(k) were not in effect.

**NOTE:** Sales price includes any benefit derived from the sale.

If multiple pages of Form 4570, Table 5, are included, carry the grand total of all line 41 entries to line 13.

**Table 6:** Enter all depreciable tangible assets (other than mobile tangible assets) acquired in the current filing period that were eligible for ITC and were **ALSO** transferred outside Michigan during the current filing period. Give all information required for each disposition in columns A through E. In column A, enter a short description (e.g., equipment, automobile, etc.) and in column B, enter the Michigan city or township in which the asset was located before its transfer. In column E, enter adjusted basis as used for federal purposes. Do not use a recomputed MBT basis for this purpose.

If multiple pages of Form 4570, Table 6, are included, carry the grand total of all Table 6, column E, entries to line 15.

## PART 4: RESEARCH AND DEVELOPMENT CREDIT

**Line 29:** As used in this part, *research and development expenses* means that term as defined in IRC § 41(b).

**UBGs:** If the taxpayer is a UBG, the Research and Development Credit is calculated on the combined research and development expenses of standard members of the UBG. Intercompany transactions are not eliminated for this purpose. Qualified expenses incurred by members of a UBG that are paid to fellow members are included in calculating the group’s credit.

**Include completed Form 4570 as part of the tax return filing.**

**IMPORTANT:** Complete the worksheets on the following pages for assets disposed (or moved out of Michigan) in the current filing period that were purchased, acquired, or moved into Michigan in a previous tax year beginning after December 31, 2007.

## Calculation of MBT ITC Credit Recapture Amount

### Calculation of MBT ITC Credit Recapture Bases

For each category of asset disposed (or moved out of Michigan) that triggers an MBT ITC credit recapture, enter the information requested below.

- Use the worksheets below to report information **ONLY** on assets disposed (or moved out of Michigan) in the current filing period that were purchased, acquired, or moved into Michigan in a **PREVIOUS** tax year beginning after December 31, 2007.
- Use tables 4, 5, and 6 on the form to report assets that were disposed of or moved out of Michigan in the current filing period **AND** were also purchased, acquired, or moved into Michigan in the same current filing period.

In each category of disposed/moved asset, group assets by taxable year in which they were acquired. All events that have varying dates must be listed separately. Multiple dispositions (or transfers) may be combined as one entry, subject to the following: all combined events must satisfy the terms of the table in which they are entered. "Taxable Year in which disposed assets were acquired" must be the same for all events combined on a single line.

**UBGs:** If an asset subject to recapture is from a member that was not part of the group in the tax year the asset was acquired, make a separate line entry for the tax year the member filed outside of the group. Take care to report in this line information requested in each column only from the member's single filings, not the group's.

**NOTE:** A sale of qualifying property reported on the

installment method for federal income tax purposes causes a recapture based upon the entire sale price in the year of the sale. The recapture is reduced by any gain reported in federal taxable income (as defined for MBT purposes) in the year of the sale. The gain attributable to the installment sale that is reported in subsequent years increases the credit base (or reduces other sources of recapture) for those years, and must be reported on column C of the appropriate Worksheet based on the type of asset. For property placed in service prior to January 1, 2008, the gain reflected in federal taxable income (as defined for MBT purposes) is equal to the gain reported for federal purposes.

**UBGs:** The recapture of capital investments for UBGs is calculated on combined assets of standard members of the UBG. Assets transferred between members of the group are not a capital investment in qualifying assets for purposes of calculating this credit or its recapture. Disposing of or transferring an asset outside of the UBG triggers recapture. Also, moving an asset outside of Michigan creates recapture, even if the transfer is to a member of the UBG.

### Worksheet 1a — Depreciable Tangible Assets

Enter all dispositions of depreciable tangible assets located in Michigan that were acquired or moved into Michigan after acquisition in a tax year beginning after 2007 and were sold or otherwise disposed of during the current filing period. Give all information required for each disposition in columns A through F. In column A, enter the taxable year in which the disposed assets were acquired. Enter combined gross sales price (net of costs of sale) in column B, and in column C, enter

#### Worksheet 1a — Depreciable Tangible Assets

A	B	C	D	E	F
Taxable Year (End Date) In Which Disposed Assets Were Acquired (MM-DD-YYYY)	Combined Sales Price of Disposed Assets by Year of Acquisition	Net Gain/Loss From Sale of Assets	MBT Apportionment Percentage from Form 4567, line 11c, or Form 4590, line 10c	Apportioned Gain/Loss <i>Multiply Column C by Column D</i>	MBT ITC Recapture (Base 1) <i>Subtract Column E From Column B</i>

#### Worksheet 1b — Depreciable Mobile Tangible Assets

A	B	C	D	E	F
Taxable Year (End Date) In Which Disposed Assets Were Acquired (MM-DD-YYYY)	Combined Sales Price of Disposed Assets by Year of Acquisition	Net Gain/Loss From Sale of Assets	Adjusted Proceeds <i>Subtract Column C From Column B</i>	MBT Apportionment Percentage from Form 4567, line 11c, or Form 4590, line 10c	MBT ITC Recapture (Base 2) <i>Multiply Column D by Column E</i>

#### Worksheet 1c — Assets Transferred Outside Michigan

A	B
Taxable Year (End Date) In Which Disposed Assets Were Acquired (MM-DD-YYYY)	MBT ITC Recapture Combined Adjusted Federal Basis of Disposed Assets by Year of Acquisition (Base 3)

total gain or loss included in calculating federal taxable income (as defined for MBT purposes).

**NOTE:** Sales price includes any benefit derived from the sale.

#### **Worksheet 1b — Depreciable Mobile Tangible Assets**

Enter all dispositions of depreciable mobile tangible assets that were acquired after 2007 and were sold or otherwise disposed of during the current filing period. Give all information required for each disposition in columns A through F. In column A, enter the taxable year in which the disposed assets were acquired. Enter gross sales price (net of costs of sale) in column B, and in column C, enter total gain or loss included in calculating federal taxable income (as defined for MBT purposes).

For property placed in service prior to January 1, 2008, gain reflected in federal taxable income (as defined for MBT purposes) is equal to the gain reported for federal purposes.

For property placed in service after December 31, 2007, gain reflected in federal taxable income (as defined for MBT purposes) is the gain reported federally except that it shall be calculated as if IRC § 168(k) were not in effect.

**NOTE:** Sales price includes any benefit derived from the sale.

#### **Worksheet 1c — Assets Transferred Outside Michigan**

Enter all depreciable tangible assets (other than mobile tangible assets) acquired after 2007 that were eligible for ITC and were transferred outside Michigan during the filing period. Give all information required for each disposition in column A and B. In column A, enter the taxable year in which the disposed assets were acquired, and in column B, enter adjusted basis as used for federal purposes. Do not use a recomputed MBT basis for this purpose.

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### **Calculation of MBT ITC Recapture Rates and Amounts**

Complete Worksheet 2 (on the following page), entering each taxable year (End Date) in which the disposed assets that triggered MBT ITC credit recapture were acquired.

**NOTE:** Lines references on columns below are based on 2010 MBT form 4570. Lines for MBT forms prior to 2010 are different, so if copying information from MBT forms other than 2010, choose the appropriate lines.

#### **Worksheet 2**

• Column A: Enter in chronological order, beginning with the earliest, the tax year end date of each acquisition year of disposed assets that triggered MBT ITC recapture from Worksheet 1a through 1c.

**UBGs:** If an asset subject to recapture is from a member that was not part of the group in the tax year the asset was acquired, make a separate line entry for the tax year the member filed outside of the group. Take care to report in this line information requested in each column only from the member's single filings, not the group's.

• Column B: Enter allowable MI compensation and ITC credits amount from Form 4570, line 26 with the corresponding acquisition year in column A.

• Column C: Enter the MI compensation credit amount from Form 4570, line 3 with the corresponding acquisition year in column A.

• Column D: Calculate net ITC credit amount: subtract column C from column B for each taxable year. If difference is less than zero (is negative), enter zero. This is the amount of ITC credit that offsets MBT liability.

• Column F: MBT capital investment amount. Enter total amount of capital investment reported on Form 4570, line 8, for each taxable year listed on column E.

• Column G: ITC rate. Enter 2.32% for taxable years on column E that end with 2008, otherwise enter 2.9%.

• Column H: Calculate gross ITC credit amount: multiply column F by column G for each taxable year.

• Column J: MBT recapture of capital investment. Enter total amount of recapture of capital investment reported on Form 4570, line 16, for each taxable year listed on column I.

• Column L: Gross MBT ITC credit recapture amount. Multiply column J by column K. This represents the total amount of ITC credit recapture available to be reported in the tax year.

• Column M: MBT ITC credit recapture amount offset by credit. Enter the lesser of columns H and L. This is the amount of available ITC credit recapture that was offset by the total amount of available ITC credit in the year.

• Column O: SBT credit recapture amount. Enter total amount from Form 4570, line 19 for each taxable year listed on column N.

• Column P: SBT ITC credit recapture amount offset by credit. Enter lesser of the amount on column O, and the amount of column H minus column M. This is the amount of SBT ITC credit recapture that was offset by the total amount of available ITC credit in the taxable year.

• Column Q: Total MBT ITC used. Add columns D, M, and P. The total amount of MBT ITC used equals to the amount of credit that offsets MBT ITC credit recapture, SBT ITC credit recapture, and the MBT liability.

• Column R: Extent used rate. Divide amounts on column Q by amounts on column H.

• Column T: MBT recapture base. Enter total amount of recapture capital investment from Worksheet 1a, column F; Worksheet 1b, column F and Worksheet 1c, column B.

• Column U: MBT recapture amount. Multiply amount in column T by rates in column G, and in column R.

Add up figures in each row of column U, and carry that amount to line 19. If filer is also reporting SBT ITC recapture, add both the total sum from column U in this form, and the amount from Form 4585, line 7 and enter the sum on line 19 on this form.

**Worksheet 2 — Calculation of MBT ITC Recapture Rates and Amounts**

<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
Taxable Year (End Date) in which MBT ITC Disposed Assets were acquired	Allowable Michigan compensation and ITC credit amount from Form 4570, line 26	Michigan Compensation Credit Amount from Form 4570, line 3	ITC that offsets MBT liability Subtract column C from column B (Enter 0 if less than 0)

<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
Taxable Year (repeat from column A)	MBT Capital Investment Amount from Form 4570, line 8	ITC rate (2.32% for tax years ending in 2008, or 2.9% otherwise)	Gross ITC Credit Amount Multiply column F by column G

<b>I</b>	<b>J</b>	<b>K</b>	<b>L</b>	<b>M</b>
Taxable Year (repeat from column A)	MBT Recapture of Capital Investment Amount from Form 4570, line 16	ITC rate (2.32% for tax years ending in 2008, or 2.9% otherwise)	Gross MBT ITC Recapture Multiply column J by column K	MBT ITC Recapture Amount Offset by Credit Lesser of column L and H

<b>N</b>	<b>O</b>	<b>P</b>	<b>Q</b>	<b>R</b>
Taxable Year (repeat from column A)	SBT ITC Credit Recapture Amount from Form 4570, line 19	SBT ITC Recapture Amount Offset by Credit Lesser of column O, and column (H – M)	Total MBT ITC Credit Used Add columns D, M, and P	Extent Credit Used Rate Divide column Q by column H

<b>S</b>	<b>T</b>	<b>U</b>
Taxable Year (repeat from column A)	Recapture base. Enter total amount of recapture from Worksheet 1a, column F; Worksheet 1b, column F; and Worksheet 1c, column B.	Recapture Amount. Multiply column T by column G and by column R