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

Purpose

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

Special Instructions for Unitary Business Groups (UBGs)

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. Generally, a UBG will file only one copy of this form, the "Group Copy for ABI."

Members Not Included in UBG for Entire Lookback Period

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 that has a loss available from the separate years that is used against the UBG's ABI disqualifier (member forms). Only Part 2, lines 10 through 13, of Form 4575 need to be completed on the member form.

Adjusted Business Income Disqualifier

This disqualifier is calculated at the group level. If the UBG has ABI in excess of $1,899,300, 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 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.

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 the *MBT Forms and Instructions for Standard Taxpayers* (Form 4600) for details.

NOTE: If the UBG still has a disqualification on this basis (greater than $1,899,300) after completing the group's Form 4575 as described above, the UBG is disqualified from the SBAC. Do not proceed with these instructions.

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 *MBT Annual Return* (Form 4567).

UBGs: Generally, only one form will be filed per UBG. See "Special Instructions for UBGs" above for exceptions. Enter the DM's name in the Taxpayer Name field 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 $1,609,400 ($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).

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. If a negative number is reached on line 7, a greater disqualifier amount is needed from the disqualifier chart here on line 5.

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.

UBGs: For UBG members reporting a period of less than 12 months with the group return, annualization is done using the member's number of months in the group's tax year. Sum the annualized member figures (when applicable) to get the group's total annualized figure.

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%

Line 7: If a negative number is reached, some reduction of credit is necessary. Return to line 5 and enter the higher disqualifier amount from the chart. Continue this process until line 7 is greater than or equal to zero. This calculation establishes the maximum allowable SBAC.

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 11 through 16, one column at a time. For those lines, complete only columns for years that reported a loss (either generated or used) **and** received an SBAC. If the taxpayer did not report a loss or did not receive an SBAC for a tax year, leave that column, lines 11 through 16, blank.

Line 10: Enter the five most recent tax years, beginning with the oldest year in the left column, including years in which there was no loss or no SBAC credit taken. Then complete lines 11 through 16, one column at at time, for each year in which a loss was generated or used and an SBAC was claimed.

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

UBGs: When completing a member's form (see "Special Instrutions for UBGs" so circumstances in which a member form is needed), 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 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 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.

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. 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.

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.