Instructions for Form 4577
Michigan Business Tax (MBT) Schedule of Shareholders and Officers
For all Corporations claiming the Small Business Alternative or Start-Up Business Credits

Purpose

To determine eligibility for all Corporations to qualify for the Small Business Alternative Credit. *Corporation* means a taxpayer that is required or has elected to file as a Corporation under the Internal Revenue Code (IRC).

General Instructions

If filing as a Corporation (including Limited Liability Companies federally taxed as such) and claiming a Small Business Alternative Credit, complete this form and include it as part of the annual return to report:

- Shareholder and C Corporation officer qualifications for the Small Business Alternative Credit;
- Compensation and director fees of active shareholders and all C Corporation officers for the computation of the Small Business Alternative Credit.

NOTE: A member of a Limited Liability Company (LLC) is characterized for MBT purposes as a shareholder if the LLC is taxed as a corporation for federal purposes.

NOTE: 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.

This form also is required to be completed and included as part of the return whenever a corporation claims a Start-Up Business Credit. To qualify for the Start-Up Business Credit, the compensation, director fees, or distributive shares paid by the taxpayer to a shareholder of a C Corporation or S Corporation, or an officer of a C Corporation, cannot exceed $135,000.

Line-by-Line Instructions

Lines not listed are explained on the form.

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

Unitary Business Groups (UBGs): Complete one form for each member that is a corporation (including an entity taxed federally as such). Enter the Designated Member 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.

PART 1: SHAREHOLDERS AND OFFICERS

Line 1 (Columns A through N): In column 1A, assign numbers (beginning with 1) to all shareholders and C Corporation officers in order of percentage of stock ownership (percentage in column G), starting with the highest percentage first. (Repeat this numbering in Part 1, line 1H, and Part 2, line 2O. 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 Part 1 and Part 2 if they receive compensation from the business. List all shareholders and C Corporation officers who:

- Are employees of the Corporation;
- Are directors of the Corporation; or
- Own 10 percent or more of the stock of the Corporation, including those by attribution.

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

An *officer* of a C Corporation includes the chairperson of the board, president, vice president, secretary, and treasurer, or persons performing similar duties.

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.

If more lines are needed for listing the shareholders and C Corporation officers, include additional copies of this form. Complete the taxpayer name and account number on each copy (and UBG member if applicable), and lines 1 and 2 as necessary. If using more than one copy of the form, continue the sequential number system for the Member Number in columns A, H and O.

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

Columns B and C: Identify each shareholder (including Corporations, Trusts, or Partnerships) and C Corporation officers by name and Social Security number. Corporations, Trusts, and Partnerships should be identified using the Federal Employer Identification Number (FEIN) or Michigan Treasury (TR) assigned number.

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 C Corporation 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 attribution of ownership from family members under IRC § 318(a)(1). If no attribution exists, enter the percentage from column E in column G and leave column F blank.

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 3 instructions. For the purposes of determining disqualification for the Small Business Alternative Credit, 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). This includes regular distributions for an S Corporation.

Column J: Enter salaries, wages, and director fees that are attributable to each shareholder or C Corporation officer. Compensation paid by a professional employer organization to the officers of a client (if the client is a C 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

ATTRIBUTION EXAMPLE:

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

Part 1: Shareholders and officers - See instructions

Part 2: List of family members and their corresponding relationships

1. **A** Member Number	**B** Name of shareholder (including corporation, trust, partnership, or family member who is a shareholder through attribution) or officer (Last, First, Middle)	2. **O** Member Number	**P** Spouse	**Q** Parent	**R** Child	**S** Grandchild	**T** Check (X) if No Attributable Relationship
1	Stone, Larry David	1	2		3		
2	Stone, Betty Ann	2	1	8	4	6	
3	Stone, Mary Elizabeth	3		1			
4	Rock, Tammie Marie	4	5	2	6		
5	Rock, Steve Carl	5	4		6		
6	Rock, Kathy Evelyn	6		4-5			
7	Rock, Mike Joseph	7					X
8	Pebble, Bob Kenneth	8			2	4	
9	Marble, Terry Robert	9					X

amounts on this form.

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

Column K: Enter employee insurance payments and pensions that are attributable to each shareholder or C Corporation 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, and pensions 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 employee insurance payments and pensions must be included, whether or not the shareholder of C Corporation officer worked in Michigan.

Column L: If any shareholder or officer of a C Corporation has total compensation and director fees in column L of over $180,000 after loss adjustment, the C Corporation is not eligible for the Small Business Alternative Credit.

Column M: Multiply the percentage in column G by line 5c on the *MBT Common Credits for Small Businesses* (Form 4571).

UBGs: Multiply the percentage in column G by the sum of the *MBT Unitary Business Group Combined Filing Schedule for Standard Members* (Form 4580), Part 2A, lines 30 and 34, plus capital loss deducted on the federal returns of all members.

Column N: If any shareholder or officer has total income in column N of over $180,000 after loss adjustment, the taxpayer is not eligible for the Small Business Alternative Credit. If any shareholder or officer has total income in column N of over $135,000, the taxpayer is not eligible for the Start-Up Business Credit.

PART 2: LIST OF FAMILY MEMBERS AND THEIR CORRESPONDING RELATIONSHIP TYPE

Columns P through S represent relationships affected by attribution.

For each shareholder listed in Part 1, column A, enter the corresponding number of the shareholder's spouse, parent, child, or grandchild, if any, listed in Part 1, 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 2 columns is not adequate to list all of the corresponding relationships, attach 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 listed only if columns P through S are blank (no attributable relationship exists).

PART 3: Small Business Alternative Credit

Line 3: Add compensation and director fees in column L for each active shareholder and enter the result on line 3 and on Form 4571, line 6.

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 E or F = 5 percent or more), AND
- Receives at least $10,000 in compensation, director fees, and 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.

Annualizing

Multiply each applicable amount by 12 and divide the result by the number of months in the tax year the business operated or the person was a shareholder. 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: Add the compensation and director fees in column L for each C Corporation officer who is not an active shareholder and enter the result on line 4 and on Form 4571, line 7.

REMINDER: Active shareholders of an S Corporation are included in the line 3 calculation, even if the shareholder is also a C Corporation officer. Because the definition of "officer" for this purpose does not apply to an S Corporation, line 4 will always be blank for an S Corporation.

Include completed Form 4577 as part of the tax return filing.