

# 2014 MICHIGAN Corporate Income Tax Small Business Alternative Credit

Issued under authority of Public Act 38 of 2011.

Taxpayer Name	Federal Employer Identification Number (FEIN)
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**The Small Business Alternative Credit is NOT available if any of the following conditions exist:**

- Gross receipts exceed \$20,000,000;
- Adjusted business income after loss adjustment exceeds \$1,346,800;
- Any shareholder or officer has allocated income after loss adjustment of over \$180,000, as determined on the *CIT Schedule of Shareholders and Officers* (Form 4894). **Form 4894 must be included.**
- Compensation and director fees of a shareholder or officer exceed \$180,000.

**The Small Business Alternative Credit must be reduced if any of the following conditions exist:**

- Any shareholder or officer has allocated income after loss adjustment of over \$160,000 but not over \$180,000, as determined on Form 4894. **Form 4894 must be included.**
- Gross receipts exceed \$19,000,000 but are not more than \$20,000,000.

1. Gross Receipts (see instructions).....	1.	00
2. Tax liability prior to this credit from Form 4891, line 39 .....	2.	00

**Adjusted Business Income**

3. Business Income (see instructions).....	3.	00
4. Carryback or carryover of a capital loss. Enter as a positive number (see instructions).....	4.	00
5. Carryback or carryover of a federal net operating loss from Form 4891, line 21. Enter as a positive number .....	5.	00
6. Subtotal. Add lines 3, 4 and 5 .....	6.	00
7. Compensation and director fees of active shareholders from Form 4894, line 1 .....	7.	00
8. Compensation and director fees of officers from Form 4894, line 2 .....	8.	00
9. Adjusted Business Income. Add lines 6, 7, and 8.....	9.	00

**Small Business Alternative Credit Calculation**

10. Small Business Alternative Tax. Multiply line 9 by 1.8% (0.018). If less than zero, enter zero .....	10.	00
11. <b>Small Business Alternative Credit.</b> Subtract line 10 from line 2. If less than zero, enter zero .....	11.	00
12. Allocated income used for reduction (see instructions).....	12.	00
13. Reduction percentage from Reduced Credit Table at bottom of this page (based on amount from line 12) .....	13.	%
14. <b>Reduced Credit.</b> Multiply the percentage on line 13 by the credit on line 11. If gross receipts from line 1 are less than or equal to \$19,000,000, carry amount to Form 4891, line 40 (see instructions).....	14.	00

**Reduction Based on Gross Receipts**

Complete this section if gross receipts are more than \$19,000,000 but not more than \$20,000,000.

15. Excess gross receipts. Subtract \$19,000,000 from line 1 .....	15.	00
16. Excess percentage. Divide line 15 by \$1,000,000 (enter as a percentage).....	16.	%
17. Allowable percentage. Subtract line 16 from 100%.....	17.	%
18. <b>Small Business Alternative Credit.</b> Multiply the percentage on line 17 by the credit on line 14. Carry amount to Form 4891, line 40.....	18.	00

REDUCED CREDIT TABLE	
If allocated* income is:	The reduced credit is:
\$0 - \$160,000 .....	100% of the Small Business Alternative Credit
\$160,001 - \$164,999 .....	80% of the Small Business Alternative Credit
\$165,000 - \$169,999 .....	60% of the Small Business Alternative Credit
\$170,000 - \$174,999 .....	40% of the Small Business Alternative Credit
\$175,000 - \$180,000 .....	20% of the Small Business Alternative Credit
* See instructions for tax years less than 12 months.	



# Instructions for Form 4893

## Michigan Corporate Income Tax (CIT) Small Business Alternative Credit

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### Purpose

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To allow taxpayers to calculate the Small Business Alternative Credit (SBAC). The credit is calculated here and then carried to the *CIT Annual Return* (Form 4891).

**The *CIT Schedule of Shareholders and Officers* (Form 4894) also must be filed with a return to qualify for the SBAC.**

A taxpayer is disqualified from taking the (SBAC) under certain circumstances, which are detailed below. Financial institutions and insurance companies are not eligible for this credit.

**NOTE:** A person that is a disregarded entity for federal income tax purposes under the internal revenue code shall be classified as a disregarded entity for the purposes of filing the CIT annual return.

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### Eligibility for the SBAC

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Taxpayers are not eligible for the SBAC if any of the following conditions exist:

- Gross receipts exceed \$20,000,000.
- Adjusted business income after loss adjustment exceeds \$1,346,800 for Corporations (and LLCs federally taxed as such).
- Any shareholder or officer has allocated income after loss adjustment of over \$180,000, as determined on Form 4894.

In addition, the SBAC is reduced if a shareholder or an officer has allocated income after loss adjustment of more than \$160,000 but not over \$180,000. This reduction is based on the officer/shareholder with the largest allocated income.

The SBAC also is reduced if gross receipts exceed \$19,000,000 but are not more than \$20,000,000.

Allocated income is the greater of either:

- (a) A shareholder or officer's compensation and director fees from Form 4894, column L, or
- (b) A shareholder's compensation, director fees, and share of business income (or loss) after loss adjustment, from Form 4894, column N.

If either (a) or (b) is greater than \$180,000 for any shareholder or officer, the Corporation is not eligible for the SBAC. In addition, if either (a) or (b) is over \$160,000 but not more than \$180,000 for any shareholder or officer, the Corporation must reduce the SBAC based on the officer or shareholder with the largest allocated income.

**NOTE:** Taxpayers leasing employees from professional employer organizations must include the compensation of officers (of the operating company) and shareholders who receive compensation in determining the eligibility for the SBAC even though their compensation is paid by the professional employer organization.

### Tax Years Less Than 12 Months

If the reported tax year is less than 12 months, gross receipts, adjusted business income, and shareholders' and officers' allocated income must be annualized to determine eligibility and reduction percentage. If annualized gross receipts exceed \$19,000,000 but do not exceed \$20,000,000, annualize figures to compute the Reduction Based on Gross Receipts, lines 15 through 18.

**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, shareholder compensation amounts must be annualized when determining disqualifiers.

### Annualizing

Multiply each applicable amount, total gross receipts, adjusted business income, and allocated income 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.

### Loss Adjustment

If taxpayers are not eligible for the full SBAC due to an adjusted business income or allocated income disqualifier, they may benefit from the *CIT Loss Adjustment for the Small Business Alternative Credit* (Form 4895). If the adjusted business income was less than zero in any of the five tax years immediately preceding the tax year for which a taxpayer is claiming an SBAC was received for that same tax year, the taxpayer may be able to reduce the current year's adjusted business income or allocated income amounts by the loss. See Form 4895 for more details.

A loss adjustment will not prevent a reduction or elimination of the SBAC based on gross receipts that exceed \$19,000,000. It will also not change the amount of compensation on Form 4894, column L.

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

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**RECENT STATUTORY CHANGE:** UBGs calculate the gross receipts and adjusted business income disqualifiers at the UBG level **AFTER** intercompany eliminations. For a UBG to claim an SBAC, each member of the UBG that is a corporation, as that term is defined under the CIT, must file Form 4894.

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. This is a change from the comparable calculation in the Michigan Business Tax (MBT).

In addition, a disqualifier applies to a UBG if such disqualifier applies to any member of that UBG. For example, a UBG

is disqualified from taking the SBAC if that UBG includes a member for which the allocated income after loss adjustment of a shareholder is \$180,000. The reduction percentages for the credit also apply to the entire group if they apply to one member.

For more information on UBGs, see the “Supplemental Instructions for UBGs” in the *Corporate Income Tax Forms and Instructions for Standard Taxpayers* (Form 4890).

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## Line-by-Line Instructions

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*Lines not listed are explained on the form.*

**Name and Account Number:** Enter taxpayer name and account number as reported on page 1 of Form 4891.

**UBGs:** Complete one form for the group. Enter the Designated Member (DM) name in the Taxpayer Name field and the DM account number in the Federal Employer Identification Number (FEIN) field.

**Line 1:** Enter amount from Form 4891, line 10a. For a tax year less than 12 months, enter annualized gross receipts to see if annualized gross receipts exceed \$19,000,000 but are not more than \$20,000,000. For guidance, see the “Annualizing” section at the beginning of these instructions.

**UBGs:** All UBG filers will use the amount from Form 4891, line 10a. For UBGs including members with tax years less than 12 months, line 10a reflects the annualized amounts for all members for the purpose of completing Form 4893. Note that under PA 14 of 2014 this line and line 10a on Form 4891 are group gross receipts **AFTER** eliminations.

### Adjusted Business Income

**Line 3:** In general, enter business income from Form 4891, line 18. The only exception is if this return includes a *Corporate Income Tax: Non-Unitary Relationships with Flow-Through Entities* (Form 4898) that reports a non-unitary relationship with a flow-through entity (FTE) that files a Michigan Business Tax (MBT) return for the current tax year. In the latter case, adjust the amount on Form 4891, line 18, to eliminate any allocation of income or loss from that FTE to this taxpayer, and enter that adjusted amount here.

**NOTE:** The adjusted business income (ABI) disqualifier is based on annualized ABI, but the credit calculations performed here are based on actual ABI.

**UBGs:** Combine all business income for all members from *CIT Data on Unitary Business Group Members* (Form 4897), line 26.

**Line 4:** Enter, to the extent deducted in determining federal taxable income (as defined for CIT purposes), a carryback or carryover of a capital loss from Schedule D of federal Form 1120. Enter as a positive number.

**UBGs:** Combine for all members all carryback or carryover of a capital loss, to the extent deducted in determining federal taxable income (as defined for CIT purposes), from Form 4897, line 12, and enter on line 4. Enter as a positive number.

### SBAC Calculation

**Line 12:** The SBAC is reduced if a shareholder or an officer has allocated income after loss adjustment of more than \$160,000 but not more than \$180,000. This reduction is based on the officer/shareholder with the largest allocated income. Enter the allocated income of the shareholder or officer with the highest allocated income after loss adjustment, even if that figure is \$160,000 or less.

If loss adjustment is successfully applied to fully or partially cure a shareholder’s allocated income disqualifier, enter on line 12 the number from Form 4895, line 12.

**Line 13:** For a taxpayer whose shareholders and officers all have allocated income after loss adjustment of \$160,000 or less, enter 100 percent. All other taxpayers, see the table at the bottom of page 1 of this form to determine what percent to enter on this line.

**Line 14:** All taxpayers must complete this line. Multiply Line 11 by the percentage on Line 13 and enter that amount on this line.

If gross receipts from line 1 are \$19,000,000 or less, carry the amount on line 14 to Form 4891, line 38.

### Reduction Based on Gross Receipts

Complete this section if gross receipts on Line 1 are more than \$19,000,000 but not more than \$20,000,000.

**Line 17:** For a result less than zero, enter zero.

***Include completed Form 4893 as part of the tax return filing.***