

SBT Loss Adjustment Worksheet for the Small Business Credit

Issued under authority of P.A. 257 of 1990.

Use this worksheet to qualify for an otherwise disallowed small business credit or alternate tax by adjusting current year adjusted business income. This is available only if a taxpayer had a negative adjusted business income in any of the five tax years immediately preceding this tax year and received a small business credit in the loss year. Partnerships and members of controlled groups - see instructions. Note: A loss adjustment cannot be used to reduce compensation from Form C-8000KC, column K. It can only be used to reduce the amount of allocated business income, column L.

PART 1: CURRENT YEAR AMOUNTS

Use this section to determine the amount of loss adjustment to the business income needed to qualify for the small business credit.

Business Income Disqualifier is \$475,000 (\$115,000 for individuals).

1. Adjusted Business Income from C-8000C, line 9 1. \$ _____ .00
2. Less the disqualifier 2. \$ _____ .00
3. Loss adjustment. Subtract line 2 from line 1 3. \$ _____ .00

Shareholder Compensation Disqualifier is \$115,000.

4. Enter the amount from C-8000C, line 6 4. \$ _____ .00
5. Disqualifier 5. \$ _____ .00
6. Enter compensation and director fees from C-8000KC, column K of the shareholder creating the disqualifier or reduction 6. \$ _____ .00
7. Subtract line 6 from line 5 7. \$ _____ .00
8. Divide line 7 by the percent of ownership (____%) from C-8000KC, column G for the shareholder on line 6 8. \$ _____ .00
9. Loss adjustment. Subtract line 8 from line 4 9. \$ _____ .00

PART 2: AVAILABLE LOSS

Use this section to determine the loss available from the five preceding years.

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|------|------|------|------|------|
| 10. Did taxpayer receive a small business credit? Complete only those columns in which "Y" is entered. | | | | | |
| 11. Enter adjusted business income as reported on C-8000C, line 9 for each tax year that reported a loss. | | | | | |
| 12. Amount of loss entered on line 11 used as an adjustment in a prior year. | | | | | |
| 13. Loss available for current return. Subtract line 12 from line 11. | | | | | |
| 14. Enter the amount from line 3 or 9, whichever is larger. | | | | | |
| 15. Loss available for future returns. Subtract line 14 from line 13. | | | | | |

Attach this worksheet to the return.

Instructions for Form 3307, Loss Adjustment Worksheet for the Small Business Credit

Purpose: To adjust the adjusted business income to qualify for the small business credit or minimize the reduction percentage required.

If the adjusted business income 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 for that same year, adjust for the loss before figuring eligibility for the small business credit. A loss adjustment will not affect a reduction to the small business credit based on gross receipts that exceed \$9 million. Also, it will not change the amount of compensation on Form C-8000KC, column K for a C-Corporation.

PART 1: Current Year Amounts

Use this part to determine the amount of loss adjustment necessary to qualify for the small business credit.

If a taxpayer is not eligible for the credit because the adjusted business income exceeds \$475,000, complete lines 1 through 3.

If a taxpayer is not eligible because a shareholder's allocated income exceeds \$115,000 or a partner's distributive income exceeds \$115,000, complete lines 4 through 9 for the shareholder or partner creating the disqualifier.

① **Note:** For the purpose of computing the small business credit, a member of an LLC is treated as a partner if the LLC is taxed as a partnership.

A taxpayer may need to calculate both if there is more than one disqualifier. Complete lines 4 through 9 for *each* shareholder or partner who creates a disqualifier. The loss adjustment required is the largest amount needed to eliminate all disqualifiers.

Reduced small business credit. A reduction of the small business credit is required if an individual, a partner in a partnership or shareholder or officer of a corporation has allocated income after loss adjustment of more than \$95,000. 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 small business credit.

The loss adjustment worksheet should always be calculated initially using \$95,000 on line 5. This calculation will establish taxpayer eligibility without the need to reduce the small business credit. 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 below on line 5, in order to maximize the claimed small business credit:

| <u>Line 5</u> | <u>Eligible % of credit</u> |
|---------------|-----------------------------|
| \$ 95,000 | 100% - no reduction |
| \$ 99,999 | 80% |
| \$104,999 | 60% |
| \$109,999 | 40% |
| \$115,000 | 20% |

The SBT loss adjustment worksheet is for corporations. To use it for a partnership or member of a controlled group, make these changes.

- ✓ **Partnerships.** Enter on line 6 any guaranteed payments made to the partner creating a \$115,000 disqualifier. On line 8, divide by the percentage of ownership from Form C-8000KP, column D.
- ✓ **Controlled Groups.** A member of a controlled group may use this form for the shareholder compensation disqualifier (lines 4 through 9). The adjustment must come from the same company. The business income disqualifier must be calculated on a consolidated basis. Substitute consolidated figures for lines 1 through 3 and lines 10 through 15.

PART 2: Available Loss

Use this section to determine the loss available from the five preceding years.

Line 10. Enter "Y" under each year that a small business credit was received.

Line 11. Enter the adjusted business income from Form C-8000C, line 9, for each tax year that reported a loss. Report the loss in parentheses.

Lines 12 - 15. Continue to fill out each year's column only if the taxpayer entered a "Y" on line 10 *and* the adjusted business income reported on line 11 was a loss.

① **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.

Attach this worksheet to the return.