Instructions for 2011 Schedule CU-1: Credit Union Adjustment to Income

Purpose of Schedule CU-1

The purpose of Schedule CU-1 is to allow credit unions acting as public depositories for state or local government funds to adjust their income so Wisconsin taxable income excludes net income earned from non-public deposits.

A credit union that is required to file a Wisconsin franchise or income tax return files Schedule CU-1 with Form 4.

Special Instructions for Combined Groups

Combined groups should prepare Schedule CU-1 separately for each member of the group that is a credit union and is otherwise required to file a Wisconsin franchise or income tax return. Complete Schedule CU-1 on a separate entity basis for each applicable group member.

Before You Complete Schedule CU-1

The starting point for computing Wisconsin net income is federal taxable income from Form 1120. Credit unions which aren't required to file federal Form 1120 with the Internal Revenue Service determine their starting point by either (1) completing a pro forma Form 1120, or (2) using the net income (loss) from the NCUA Form 5300, 2011 Year end Call Report. You must file either the pro forma Form 1120 or the NCUA Form 5300, whichever you are using, with Form 4.

If you are filing a separate Wisconsin return, enter on Form 4, line 1 the amount from either the pro forma Form 1120 or the NCUA Form 5300, as applicable. If the credit union is a member of a combined group, include this amount in the members' federal taxable incomes you report on Form 4R. The total from Form 4R carries forward to Form 4, line 1.

Adjust the amount you reported on Form 4, line 1 to account for Wisconsin addition and subtraction modifications. Compute these modifications on Schedules V and W, as appropriate, but do not enter the amount from Schedule W on Form 4, line 4 until you have completed Schedule CU-1. This is because you will include the amount from line 9 of Schedule CU-1 (whether positive or negative) as an "other" modification on Schedule W, line 13.

Line-by-Line Instructions

These instructions are presented in the order the lines appear on Schedule CU-1:

Part I: Percentage of Income Earned from Public and Non-Public Deposits

■ **Lines 1a through 1m. Deposits on Hand –** Enter on line 1a the amount of deposits on hand on January 1, 2011, and on lines 1b through 1m the amount of deposits on hand at the end of each month in 2011. Enter public deposits in column A and total deposits in column B. Enter zero (0) in column A for each month in which no public deposits were held.

■ **Line 1n. Totals –** Enter on line 1n the totals of lines 1a through 1m for both columns A and B.

■ **Line 2. Monthly Average –** Divide the amounts on line 1n by 13 and enter the results on line 2 for both columns A and B.

■ **Line 3a. Percentage of Public Deposits –** Divide the amount on line 2, column A, by the amount on line 2, column B, and multiply by 100. Fill all spaces to the right of the decimal point. Round to the nearest ten-thousandth of a percent (for example, 12.3456%).

■ **Line 3b. Percentage of Non-Public Deposits –** Subtract the percentage on line 3a from 100%. Fill all spaces to the right of the decimal point.

Part II: Adjustment for Income Earned from Non-Public Deposits

Expenses related to exempt income from non-public deposits are nondeductible. The adjustment you compute in Part II must be net of all expenses directly and indirectly related to the income from non-public deposits. You may compute this adjustment using the shortcut method or the regular method.

Under the shortcut method, all expenses, whether direct or indirect, are allocated based on the ratio of public deposits to non-public deposits. If you are using the shortcut method, complete only lines 4 and 9 of Part II. If you are using the regular method, complete all of lines 4 through 9 of Part II.

■ **Line 4. Credit Union's Modified Net Income –** Enter the credit union's income or loss as reported on Form 4, line 1, plus its total addition modifications from Schedule V and minus its subtraction modifications from lines 1 through 13 and line 15 of Schedule W (since you will enter your total from Schedule CU-1 on Schedule W, your total on Schedule W will not yet be complete).

If the credit union is a member of a combined group, enter the credit union's net income or loss included in the amount reported on Form 4, line 1, and only adjust the credit union's net income or loss for addition and subtraction modifications that are attributable to the credit union.

■ **Line 5. Expenses Directly Related to Income from All Deposits –** Enter the total expenses directly related to income from deposits. Include expenses directly related to income from public deposits and expenses directly related to income from non-public deposits.

■ **Line 8. Expenses Directly Related to Income from Non-Public Deposits –** Enter the total expenses directly related to income from non-public deposits. Do not include any indirect expenses or expenses related directly to income from public deposits.

■ **Line 9. Total Adjustment to Income –** If the net income from non-public deposits is a loss amount, enter the loss on line 9 as a **negative** number and also as a **negative** number on Schedule W, line 13. The loss from non-public deposits is addition to federal income even though it is reported along with the subtractions on Schedule W.

CAUTION: If the credit union has a net loss from non-public deposits, enter that amount as a **negative** number on Schedule W, line 13.

Additional Information and Assistance

Web Resources. The Department of Revenue has a web page dedicated to combined reporting issues, including:

- Frequently asked questions
- Training materials
- Links to Administrative Code sections that relate to combined reporting
- Articles about combined reporting

Access the combined reporting web page at: http://www.revenue.wi.gov/combrept/index.html

For questions that do not relate to combined reporting, the web page also has a library of frequently asked questions on general business tax topics, available at: http://www.revenue.wi.gov/faqs/index.html

Contact Information. If you cannot find the answer to your question in the resources available on the Department of Revenue's web page, contact the Department using any of the following methods:

- E-mail your question to corp@revenue.wi.gov
- Call (608) 266-2772
  (Telephone help is also available using TTY equipment. Call the Wisconsin Telecommunications Relay System at 711 or, if no answer, (800) 947-3529. These numbers are to be used only when calling with TTY equipment.)
- Send a fax to (608) 267-0834
- Write to the Audit Bureau, Wisconsin Department of Revenue, Mail Stop 5-144, PO Box 8906, Madison, WI 53708-8906