

## Instructions for 2019 Schedule A-10: Wisconsin Apportionment Percentage for Interstate Pipeline Companies

### Purpose of Schedule A-10

Interstate pipeline companies required to use apportionment must use the factor prescribed in sec. Tax [2.48](#), Wisconsin Administrative Code.

### Line-by-Line Instructions

#### Property Factor (lines 1 through 14)

The numerator of the property factor (Wisconsin column) includes the average value of the real and tangible personal property owned or rented and used by the taxpayer in Wisconsin in the production of apportionable income during the tax period. The denominator (Total Company column) includes the average value of all of the real and tangible personal property located everywhere owned or rented and used by the taxpayer in the production of apportionable income during the tax period. Property in transit on the date or dates for determining its average value is considered to be at its destination, for purposes of computing the property factor. The value of mobile or movable property such as construction equipment, trucks, airplanes, or other equipment which is located within and without Wisconsin during the tax period is determined on the basis of the ratio of time used, serviced and stored within Wisconsin to total time used, serviced, and stored during the tax period. However, an automobile assigned to a traveling employee is included in the numerator of the factor if the employee's compensation is assigned to Wisconsin under the payroll factor.

*Valuation.* Property owned by the taxpayer is generally valued at its original cost net of depreciation and write-offs as determined for Wisconsin franchise or income tax purposes. Any adjustments to net income which affect property, such as capitalizations of repairs, depreciation or amortization adjustments and adjustments to inventory, are also included in the property factor. The value of depletable property, such as mines, oil and gas wells and timber, is valued at the original cost reduced by any extraction to the extent that depletion has been allowed. Inventories are included in the factor in accordance with the valuation method used for Wisconsin franchise or income tax purposes. If the property factor is distorted by reason of the taxpayer depreciating property in Wisconsin by a method different from that used to depreciate property outside Wisconsin, or in any case in which the Wisconsin net cost cannot be ascertained, the department will authorize or direct some other method of determining the property fraction that will produce an equitable result.

*Leasehold improvements.* Leasehold improvements are treated as property owned by the taxpayer regardless of whether the taxpayer is entitled to remove the improvements or the improvements revert to the lessor upon expiration of the lease. The original cost of leasehold improvements net of amortization is included in the factor.

*Construction in progress.* Property or equipment under construction during the tax period, except inventoriable goods in process, is excluded from the factor until the property is actually used by the taxpayer in the regular course of its trade or business. If the property is partially used by the taxpayer in the regular course of its trade or business while under construction, the value of the property to the extent used is included in the property factor.

*Averaging property values.* As a general rule the "average value" of property is determined by averaging the value at the beginning and ending of the tax period, but the department may require or the taxpayer may utilize

the averaging of monthly values during the tax period if monthly averaging is reasonably required to properly reflect the average value of the taxpayer's property. Averaging by monthly values will generally be applied if substantial fluctuations in the values of the property exist during the tax period, or where property is acquired after the beginning of the tax period or disposed of before the end of the tax period.

### **Payroll Factor (lines 15 through 20)**

The numerator of the payroll factor (Wisconsin column) includes the total amount paid in Wisconsin during the tax period by the taxpayer for compensation in the production of apportionable income and the denominator (Total Company column) includes the total compensation paid everywhere during the tax period by the taxpayer in the production of apportionable income. Compensation is paid in Wisconsin and included in the numerator if, as provided in ss. [71.04 \(6\) \(b\)](#) and [71.25 \(8\) \(b\)](#), Stats., one of the following applies:

- The individual's service is performed entirely within Wisconsin.
- The individual's service is performed within and without Wisconsin, but the service performed without Wisconsin is incidental to the individual's service within Wisconsin.
- A portion of the service is performed in Wisconsin and the base of operations of the individual is in Wisconsin.
- A portion of the service is performed in Wisconsin and, if there is no base of operations, the place from which the individual's service is directed or controlled is in Wisconsin.
- A portion of the service is performed within Wisconsin and neither the base of operations of the individual nor the place from which the service is directed or controlled is in any state in which some part of the service is performed, but the individual's residence is in Wisconsin.
- The individual is neither a resident of nor performs services in Wisconsin but is directed or controlled from an office in Wisconsin and returns to Wisconsin periodically for business purposes and the state in which the individual resides does not have jurisdiction to impose income or franchise taxes on the employer.

*Management fee situs.* The situs of management or service fees is in Wisconsin to the extent the related corporation's employees performing the services meet one of the requirements above.

*Services.* An individual is considered to be performing a service in Wisconsin during the year if the individual performs services in Wisconsin for at least 5 days during the year. The compensation of any one employee may not be split between 2 or more states during the year; however, this does not apply if the employee is transferred or changes positions during the year.

*Compensation.* Compensation includes:

- Wages, salaries, commissions and any other form of remuneration paid to employees for personal services including amounts contributed to a qualified cash or deferred arrangement under section [401](#) (k) of the Internal Revenue Code on behalf of employees who have elected to participate in the plan. However, matching contributions to the trust by an employer under section [401](#) (k) of the Internal Revenue Code are not included since the employees do not have a right to receive the matching contributions directly in cash.
- The value of board, rent, housing, lodging, and other benefits or services furnished to employees by the taxpayer in return for personal services, provided that these amounts constitute income to the recipient under the federal Internal Revenue Code for the year for which the payroll factor is computed. In the case of employees not subject to the federal Internal Revenue Code, such as citizens of foreign countries employed in foreign countries, the determination of whether the benefits or services constitute income to the employees shall be made as though the employees are subject to the federal Internal Revenue Code.

- Deductible management or service fees paid, or management or service fees allocated by the department under s. [71.10 \(1\)](#), [71.30 \(2\)](#) or [71.80 \(1\) \(b\)](#), Stats., to a related corporation, as defined in section [267](#) (f) (1) of the Internal Revenue Code, as consideration for the performance of personal services. As provided in s. [71.25 \(8\) \(d\)](#), Stats., the recipient of these fees may not include the compensation paid to its employees with respect to the personal services in either the numerator or denominator of its payroll factor and the situs of the fees is in Wisconsin if the services fulfill one of the requirements of par. [\(a\)](#). Except for these management or service fees, payments made to an independent contractor or any other person not properly classifiable as an employee are excluded.

*Excludable compensation.* Compensation related to the operation, maintenance, protection or supervision of real or tangible and intangible personal property used in the production of nonapportionable income, and amounts paid to retired employees shall be excluded from both the numerator and the denominator of the payroll factor. Except for management or service fees paid to a related corporation, payments made to an independent contractor or any other person not properly classifiable as an employee are also excluded.

*Elimination of factor.* If the company has no employees nor pays management or service fees to a related corporation, or in which the department determines that employees are not a substantial income producing factor, the department can order or permit the elimination of the payroll factor and the use of the arithmetical average of the other 2 factors to arrive at the Wisconsin apportionment percentage.

#### Traffic Unit Factor (lines 21 through 24)

■ **Line 21. Traffic Unit Factor** – For the Wisconsin column, enter the transportation for a distance of one mile of one barrel of oil, one gallon of gasoline or one thousand cubic feet of natural or casinghead gas, or other appropriate measure of product in Wisconsin.

For the Total Company column, enter the transportation for a distance of one mile of one barrel of oil, one gallon of gasoline or one thousand cubic feet of natural or casinghead gas, or other appropriate measure of product everywhere.

■ **Line 25. Apportionment Percentage** (Separate return filers and pass-through entities) – Add lines 14, 20, and 24. **Fill all spaces to the right of the decimal point.** Round to the nearest ten-thousandth of a percent (for example, 12.3456%). See the instructions of the tax form you are filing (Form 1NPR, 2, 3, 4, 4T, 5S, or 6) for how to report and use this percentage.

#### Conversion to Modified Sales Factor (combined return filers only)

Combined return filers complete lines 26 through 35 to compute the “modified sales factor” that will determine their Wisconsin share of combined unitary income.

■ **Line 26. Sales Factor Amounts** – Enter the total company sales for each line.

■ **Line 28. Intercompany Sales** (*Combined Group Members Only*) – Any sales made between members of the same combined group (“intercompany sales”), either directly or through interests in a pass-through entity, must be excluded from the amounts you entered on lines 26a through 26l.

Report the excluded amount of intercompany sales on line 28. If you already excluded these intercompany sales from the amounts you entered on lines 26a through 26l, do not enter any amounts on line 28.

Following are additional details about intercompany transactions that involve pass-through entities. For additional information, refer to sec. Tax 2.61(7)(e), Wisconsin Administrative Code.

**Sales to Pass-Through Entities Owned by Combined Group Members.** If a combined group member makes a sale to a pass-through entity which is more than 50 percent owned, directly or indirectly, by members of the combined group, the member must eliminate an amount equal to the gross receipts of the sale multiplied by the sum of all combined group members' interests in the pass-through entity as of the date of the sale. The examples below illustrate:

*Example 1:* Combined Group LM consists of Member L and Member M. L owns a 40% interest in Partnership P. M owns a 60% interest in Partnership P. On March 1, 2019, L sells a widget to Partnership P for \$10,000, and this sale is includable in Group LM's combined unitary income. In its computation of apportionment factors for 2019, L must subtract an amount of \$10,000 ( $= \$10,000 \times (40\% + 60\%)$ ) from its sales factor denominator and, if applicable, from its numerator.

*Example 2:* Assume the same facts as Example 1, except that Member L owns a 25% interest and M owns a 50% interest in Partnership P. In its computation of apportionment factors for 2019, L must subtract an amount of \$7,500 ( $= \$10,000 \times (25\% + 50\%)$ ) from its sales factor denominator and, if applicable, from its numerator.

**Sales by Pass-Through Entities Owned by Combined Group Members.** If a pass-through entity makes a sale to a combined group member and more than 50 percent of the pass-through entity is directly or indirectly owned by members of the combined group, each member with an interest in the pass-through entity must subtract from its sales factor numerator and denominator any amount that would otherwise be included attributable to the sale. The example below illustrates:

*Example:* Combined Group ST consists of Member S and Member T. S owns a 20% interest in Partnership R. T owns an 80% interest in Partnership R. On October 1, 2019, Partnership R sells a widget to S for \$20,000, and this sale is includable in Group ST's combined unitary income. In its computation of apportionment factors for 2019, S must subtract an amount of \$4,000 ( $= \$20,000 \times 20\%$ ) from its sales factor denominator and, if applicable, from its numerator. Similarly, T must subtract an amount of \$16,000 ( $= \$20,000 \times 80\%$ ) from its sales factor denominator and, if applicable, from its numerator.

■ **Line 29. Sales Excluded from Combined Unitary Income** (*Combined Group Members Only*) – If you reported an amount on Form 6, Part II, line 6 for separately apportioned income, you must exclude the sales attributable to that amount from the numerator and denominator of the sales factor, as applicable. Report the excluded amount of these sales on line 29. However, if you already excluded these sales from the amounts you entered on lines 26a through 26l, do not enter any amounts on line 29.

See the instructions to Form N, *Wisconsin Nonapportionable, Separately Accounted, and Separately Apportioned Income*, for further details on how to report and apportion separately apportioned income.

■ **Line 32. Sales Previously Deferred** (*Combined Group Members Only*) – If a combined group member made a sale to another member of the combined group in a prior taxable year and gain or loss on the transaction was deferred under the provisions of sec. 71.255(4)(g), Wis. Stats., the selling member must include the gross receipts from the sale in its sales factor in the year the gain or loss is recognized, to the extent those gross receipts are otherwise includable in the sales factor.

**NOTE:** Section 71.255(4)(g), Wis. Stats., provides that the intercompany deferral provisions of Treas. Reg. §1.1502-13 apply to a combined group similarly to how they apply to a consolidated group for federal purposes. See the instructions to Form 6, Part I, line 33, for details.

Report the gross receipts corresponding to any income recognized under sec. 71.255(4)(g), Wis. Stats., on line 32. If you already included these receipts in the amounts you entered on lines 26a through 26l, do not enter any amounts on line 32.

Under sec. Tax 2.61(7)(d), Wisconsin Administrative Code, special sourcing rules apply to amounts reported on line 32. If a combined group member sells an item or service to another combined group member and the purchaser subsequently resells it to a third party outside of the group, the situs of both sales is determined based on the situs of the sale from the purchasing member to the third party. Also, the purchasing member must exclude

from its apportionment factors the amount the selling member already included attributable to that same item or service. The example below illustrates:

*Example:*

Combined Group YZ consists of Member Y and Member Z. Group YZ is on a calendar year. On December 30, 2018, Y sells a widget with a cost of \$400 to Z, for \$600. Y ships the widget to Z's warehouse in Wisconsin. On January 30, 2019, Z resells the widget to Q, an unrelated third party, for \$700. Z ships the widget to Q's headquarters in Illinois. Assume both the sale by Y and the sale by Z are includable in combined unitary income, and assume that Z has nexus in Illinois.

In 2018, Y did not recognize any gain on the sale to Z because the gain was deferred under the provisions of sec. 71.255(4)(g), Wis. Stats. Since the gain on the sale was not recognized, Y cannot include the \$600 sale in its apportionment factors for 2018.

In 2019, Y must include its \$200 of gain on the sale to Z (= \$600 - \$400) in combined unitary income. Y must also include the sale amount of \$600 in its sales factor denominator for 2019. Z must include its \$100 gain on the sale to Q (= \$700 - \$600) in combined unitary income for 2019. However, since \$600 of Z's sales price has already been included in Y's sales factor, Z may only include the remaining \$100 of the sale amount in its sales factor denominator. Neither Y nor Z include these amounts in their sales factor numerators since both sales are deemed to have a situs in Illinois where Group YZ has nexus.

## Additional Information and Assistance

### Web Resources

The Department of Revenue's web page, available at [revenue.wi.gov](http://revenue.wi.gov), has a number of resources to provide additional information and assistance, including:

- Related [forms](#) and their instructions
- [Common questions](#)
- [Publications](#) on specific tax topics
- The [Wisconsin Tax Bulletin](#)
- A home page specifically for [combined reporting topics](#)
- Links to the [Wisconsin Statutes and Administrative Code](#)

### 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: [DORFranchise@wisconsin.gov](mailto:DORFranchise@wisconsin.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 3-107, PO Box 8906, Madison, WI 53708-8906

### Applicable Laws and Rules

This document provides statements or interpretations of the following laws and regulations in effect as of November 1, 2019: Chapter 71 Wis. Stats., and Chapter Tax 2, Wis. Adm. Code