

## Wisconsin Department of Revenue

## Frequently Asked Questions: Schedule RT Filing Requirements

For taxable years beginning in 2008, taxpayers may be required to file Schedule RT as part of their Wisconsin income or franchise tax return if they are claiming a deduction for certain expenses paid, accrued, or incurred to a related entity (including a natural person or other type of entity).

Below are answers to frequently asked questions about the Schedule RT filing requirements. The questions are broken down into four categories:

- A. Who Must File Schedule RT
- B. What Must Be Reported on Schedule RT
- C. When to File Schedule RT
- D. Effect of an Unfiled, Late, or Incorrect Schedule RT

### A. Who Must File Schedule RT

**Question A1. Types of Taxpayers Affected.** What types of taxpayers must file Schedule RT?

**Answer A1:** Schedule RT can be required for any type of taxpayer, including individuals, corporations, limited liability companies, and insurance companies; as well as for pass-through entities such as tax-option (S) corporations, partnerships, limited liability companies treated as partnerships, estates, and trusts.

**Question A2: Determining if Schedule RT Is Required.** How do I know if I must file Schedule RT for 2008?

**Answer A2:** Schedule RT is required if the taxpayer or pass-through entity is

- Reporting expenses on its 2008 Wisconsin return which are paid, accrued, or incurred to a related entity,
- Those expenses are of the type described on Schedule RT, and
- The \$100,000 threshold exception does not apply.

A “related entity” is any related person under sections 267 or 1563 of the Internal Revenue Code, and can include a related individual, corporation, tax-option (S) corporation, partnership, limited liability company, estate, or trust. (For more details, see the answer to Question A1 on page 16 of *Wisconsin Tax Bulletin 158*).

The expenses described on Schedule RT are:

- Interest expenses
- Rental expenses
- Royalty expenses
- Management and service fee expenses
- Inventory purchases
- Other related entity expenses if more than 10% of total expenses

See Question A3 for details of the \$100,000 threshold exception.

**Question A3: \$100,000 Threshold Exception.** How does the \$100,000 threshold exception apply?

**Answer A3:** Schedule RT is not required if the total of the expenses reportable on Schedule RT, multiplied by the Wisconsin apportionment percentage (if applicable) is \$100,000 or less. Expenses reportable on Schedule RT which are not attributable to apportionable income may not be multiplied by the Wisconsin apportionment percentage.

**Question A4: Reporting of Expenses Not Required to Be Added Back.** Do I need to file Schedule RT even if none of my expenses paid to related entities are required to be added back?

**Answer A4:** Yes, provided the \$100,000 threshold exception does not apply. This means that you may have to report royalty expenses, management and service fee expenses, inventory purchases, and other related entity expenses exceeding 10% of total expenses on Schedule RT even if you were not required to add them back.

**Question A5: Reporting of Expenses Required to Be Added Back.** Is Schedule RT always required if I have related entity interest or rental expenses, since I am required to add those back?

**Answer A5:** Schedule RT would not necessarily be required. Even though you must add back related entity interest and rental expenses, you are not required to report those expenses on Schedule RT if the \$100,000 threshold exception applies.

If you have interest or rental expenses paid, accrued, or incurred to a related entity but aren't required to file Schedule RT, you must still refer to Schedule RT, Part II and to the Schedule RT instructions for guidelines to determine if those expenses meet the necessary conditions to be deducted.

**Question A6: Schedule RT Requirements for Pass-Through Entities.** How do the Schedule RT requirements apply to pass-through entities?

**Answer A6:** A pass-through entity must file Schedule RT if the entity is reporting expenses on its 2008 Wisconsin return which are paid, accrued, or incurred to a related entity and those expenses are of the type described on Schedule RT. The \$100,000 threshold is determined at the pass-through entity level. It does not matter if those expenses are deducted against income taxed at the entity level or if they are deducted against income passed through to the entity's shareholders, partners, members, or beneficiaries.

A shareholder, partner, member, or beneficiary of a pass-through entity is not required to file Schedule RT to disclose expenses that the pass-through entity has already disclosed on Schedule RT.

**Question A7: Effect of Schedule RT on Disregarded Entities.** How do the Schedule RT requirements affect transactions involving disregarded entities?

**Answer A7:** A disregarded entity, such as a single member limited liability company (SMLLC), is not considered a separate taxpayer from its owner for purposes of Wisconsin income or franchise taxes. Thus, a transaction between a disregarded entity and its owner is not required to be reported on Schedule RT.

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## B. What Must Be Reported on Schedule RT

**Question B1: Sufficient Disclosure.** Is it sufficient to enter "available upon request" on Schedule RT?

**Answer B1:** No. Lines which indicate "available upon request" will be treated as if they are blank.

**Question B2: Supporting Documentation.** What supporting documentation is required to be filed with Schedule RT?

**Answer B2:** If there is not enough space on Schedule RT to list all entities to which you paid, accrued, or incurred expenses, submit with Schedule RT a supplemental schedule to identify those additional entities and provide the information required on Schedule RT regarding expenses paid, accrued, or incurred to those additional entities.

You must also submit a supplemental schedule for any related entity expenses other than interest, rent, or royalty expenses; management or service fees; or inventory purchases; if the total amount of such expenses paid, accrued, or incurred to related entities is more than 10% of total expenses claimed for the taxable year. See the instructions for Schedule RT, Part I, line 4c for details of the information that must be included in this supplemental schedule.

You may also submit any other documentation you believe would enhance the department's understanding of the transactions. However, this additional documentation is not required.

**Question B3: Cash Basis vs. Accrual Basis.** I incurred an expense during my 2008 taxable year that must be reported on Schedule RT but since I'm on a cash basis I won't deduct the expense until I pay it in 2009. Should I report the expense on my 2008 Schedule RT?

**Answer B3:** No, you do not need to report the expense on Schedule RT until the taxable year in which you deduct it for federal income tax purposes.

**Question B4: Multiple Transactions.** If I have more than one type of related entity expense or if I pay expenses to more than one related entity, do I need to file more than one Schedule RT for the taxable year?

**Answer B4:** No, you do not have to file more than one Schedule RT for a taxable year. If there is not enough space on Schedule RT to list all entities to which you paid, accrued, or incurred expenses, submit with Schedule RT a supplemental schedule to identify those additional entities and to provide the information required on Schedule RT regarding expenses paid, accrued, or incurred to those additional entities.

**Question B5: Taxpayers Subject to Apportionment.** If a taxpayer is subject to apportionment, are the amounts reportable on Schedule RT before or after applying the apportionment percentage?

**Answer B5:** Enter the amounts before applying the apportionment percentage. However, note that for purposes of determining the \$100,000 threshold exception, the apportioned amounts are used (See Question A3).

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### C. When to File Schedule RT

**Question C1: Due Date.** What is the due date for filing Schedule RT?

**Answer C1:** You must file Schedule RT by the due date of your Wisconsin return for the year in which the expense is reported for tax purposes, including extensions. **Caution:** The department will not accept Schedule RT if it is filed after the extended due date of your Wisconsin return.

**Question C2: Short Periods Beginning in 2008.** I had a short period beginning in 2008 and my filing deadline, including extensions, has already passed. Do I still have to file Schedule RT?

**Answer C2:** Yes, Schedule RT is required for all taxable years, including short taxable years, beginning on or after January 1, 2008. A special deadline applies to short taxable years beginning in 2008. If you

had a short period for a taxable year beginning in 2008 and had expenses reportable on Schedule RT for that short period, you must file an amended 2008 return which includes Schedule RT no later than **October 15, 2009**.

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### D. Effect of an Unfiled, Late, or Incorrect Schedule RT

**Question D1: Unfiled Schedule RT.** What happens if Schedule RT is not filed in cases where it is required?

**Answer D1:** The answer depends on what type of related entity expenses were required to be reported on Schedule RT:

**Related Entity Interest and Rental Expenses.** A Wisconsin deduction will not be allowed for related entity interest or rental expenses if a taxpayer fails to report them on Schedule RT when required.

However, if any interest or rental expense is not allowed as a deduction because the taxpayer failed to file Schedule RT, the related entity to whom the taxpayer paid, accrued, or incurred the expense may exclude the resulting income from its Wisconsin income. In order for this exclusion to apply, the taxpayer must complete Schedule RT-1, *Statement of Disallowed Related Entity Interest Expense or Rental Expense*, and provide it to the related entity. The related entity must file the completed Schedule RT-1 with his, her, or its return to substantiate the amount excluded. (The related entity may file an amended return to claim this exclusion.)

**All Other Related Entity Expenses Reportable on Schedule RT.** A deduction may still be allowed if a taxpayer fails to file Schedule RT to report a related entity expense other than related entity interest or rent. However, if additional tax is subsequently discovered, a penalty of 25% of the additional tax may apply if the failure to meet all requirements was not due to good cause.

**Question D2: Late-Filed Schedule RT.** Can I file Schedule RT on an amended return after the due date?

**Answer D2:** The department will not accept Schedule RT if it is filed after its due date. Thus, it is important to evaluate your records and identify any related entity expenses reportable on Schedule RT at the time you file your original return.

**Question D3: Incorrect Amounts.** What happens if a taxpayer reports related entity interest or rent expenses on Schedule RT, but the amount disclosed is incorrect?

**Answer D3:** If the amount disclosed is less than the amount required to be disclosed, a deduction may be allowed to the extent of the amount disclosed. However, for each type of expense reportable on Schedule RT, the disclosure will be considered correct if the total amount disclosed (for amounts paid, accrued, or incurred to all related entities) is within 10% of the actual amount of the expense.