2012

Wisconsin
Corporation Franchise and Income Tax
Form 4 Instructions for Combined Returns

Tips:

Combined Return or Separate Return?
Don't use this booklet if you are filing a separate return. To determine whether to file a combined return or separate return, see page 4.

Forms 4R and 4M Required
Along with the combined Form 4, you must attach one Form 4R for the group and one Form 4M for each member of the group. Instructions for Form 4R and Form 4M are available separately.

Order of Preparing Forms
You must complete Form 4M for each member of the combined group before you complete lines 10 through 48 of Form 4. Many computations on Form 4, including gross tax, must equal the sum of the amounts you compute on Forms 4M. See page 18.

Electronic Filing
Combined returns are generally required to be filed electronically. See page 7.

Required Attachments
A combined return must have the required attachments, including Form 4R, Forms 4M, a copy of the federal return for each member, Federal Form 851 if applicable, a list of solely-owned LLCs, any extension of time to file the return, or other prescribed schedules. See pages 8 and 23.

Schedule CR Not Required
Combined return filers do not have to file Schedule CR to report credits. Instead, each member that has credits reports them using a code on Form 4M. See the Form 4M instructions.

Go Electronic!

Fast ● Accurate ● Secure

File Form 4 through the Federal/State E-Filing Program. With approved third party software, you can file Form 4 along with other Wisconsin and federal returns in a single filing. Or, you may use Federal/State E-Filing to file Form 4 separately. See *Filing Methods* on page 7.

Visit us online at

revenue.wi.gov to…

- Obtain tax forms and instructions.
- Find answers on the Combined Reporting web page (under the "Businesses" link).
- Get answers to common questions on general business topics.
- Find out which third-party software you can use to file Form 4 electronically.
- Register for electronic funds transfer.
- Check out the *Wisconsin Tax Bulletin* quarterly newsletter.
- Read Department of Revenue publications.
- Register to receive e-mail news.
- Determine how to contact the Department about a specific question.

Don't forget about use tax!
The corporation may owe use tax if it purchased tangible personal property or certain services for storage, use, or consumption in Wisconsin without paying a state sales or use tax. See page 23.

Table of Contents

Who Must File Form 4 2
Types of Taxpayers 2
"Doing Business in Wisconsin" 2
Entities Not Required to File 2
Franchise or Income Tax 3
Economic Development Surcharge 3

Separate Return or Combined Return? 4
Combined Returns and Groups in General 4
Test 1: Commonly Controlled Group 4
Test 2: Unitary Business 4
Test 3: Water's Edge 6

General Franchise or Income Tax Return Instructions 6
Who is the "Designated Agent?" 6
When and Where to File 6
Period Covered by Return 7
Accounting Methods and Elections 7
Payment of Estimated Tax 8
Components of Combined Return 8
Required Disclosures and Information Returns 9
Internal Revenue Service Adjustments, Amended Returns, and Claims for Refund 9
Final Return 10
Penalties for Not Filing or Filing Incorrect Returns 10

Conformity with Internal Revenue Code and Exceptions 10
Depreciation and Section 179 Expensing 10
Other Exceptions to Internal Revenue Code 11

Provisions of the Internal Revenue Code Adopted for Wisconsin Purposes: 11
Capital Losses 13
Limitations on Certain Federal Deductions 13
Federal Consolidated Return Regulations 13
Differences Between Federal and Wisconsin Basis of Assets 14

General Instructions for Apportionment 15
Who Must Use Apportionment 15
Apportionment Method 15
Nonapportionable Income 15
Separately Apportioned Income 16
Corporate Partners or LLC Members 16
Separate Accounting 16

Treatment of Specialized Industries and Entities 17
Foreign Sales Corporations (FSCs) 17
Interest Charge Domestic International Sales Corporations (IC-DISCs) 17
Insurance Companies 17
Personal Holding Companies 17
RICs, REMICs, REITs, and FASITs 17
Tax Exempt Organizations 17
Urban Transit Companies 17

Order of Preparing a Combined Return 18

Line-by-Line Instructions for Form 4 19

Required Attachments 23

Additional Information, Assistance, and Forms . 24
Web Resources 24
Contact Information 24
Obtaining Forms 24

IMPORTANT: Every combined return must include the following supplemental forms in addition to Form 4:

- **Form 4R**, *Federal Taxable Income Reconciliation for Wisconsin Combined Groups*
- **Form 4M**, *Wisconsin Combined Group Member-Level Data*

You should also obtain the instructions for Form 4R and

NOTE: It may also be helpful to obtain the instructions to the following forms and schedules that are frequently required to be filed with Form 4:

- **Form 4A**, *Wisconsin Apportionment Data for Combined Groups*
- **Form 4A-1**, *Wisconsin Apportionment Data for Single-Factor Formulas*
- **Schedule V**, Wisconsin Additions to Federal Income
- **Schedule W**, *Wisconsin Subtractions From Federal Income*
- **Schedule Y**, *Wisconsin Subtraction Modification for Dividends*

Who Must File Form 4

Types of Taxpayers

Form 4 is for corporations only. Corporations that must file Form 4, if not otherwise exempt, include:

- Corporations doing business both in and outside Wisconsin (multistate corporations)
- Corporations that are members of combined groups doing business in Wisconsin
- Domestic insurance companies doing business in Wisconsin

Corporations (other than insurance companies) that are doing business only in Wisconsin file Form 5. Tax-option (S) corporations file Form 5S. Tax exempt corporations may be required to file Form 4T.

Additionally, some corporations must file a Wisconsin corporation franchise or income tax return (Form 4, 5, 5S, or 4T, as applicable) regardless of whether they are otherwise "doing business in Wisconsin." These corporations include:

- Corporations organized under Wisconsin law
- Foreign corporations licensed to do business in Wisconsin
- Foreign corporations that are the sole owner of an entity that is disregarded as a separate entity under IRC section 7701 and does business in Wisconsin
- Foreign corporations engaged in buying or selling lottery prizes if the winning tickets were originally bought in Wisconsin

"Doing Business in Wisconsin"

"Doing business in Wisconsin" means that the corporation has "nexus" with Wisconsin. Activities that create nexus include the following:

- Maintaining any business location in Wisconsin
- Owning real estate in Wisconsin
- Owning a stock of goods in a public warehouse or on consignment in Wisconsin
- Owning a stock of goods in the hands of a distributor or other non-employee representative in Wisconsin, if used to fill orders for the owner's account
- Regularly selling products or services of any kind or nature to customers in Wisconsin that receive the product or service in Wisconsin, except where protected by federal Public Law (P.L.) 86-272
- Regularly soliciting business from potential customers in Wisconsin, except where protected by P.L. 86-272
- Regularly performing services outside Wisconsin for which the benefits are received in Wisconsin
- Regularly engaging in transactions with customers in Wisconsin that involve intangible property and result in receipts flowing to the corporation from within Wisconsin
- Issuing credit, debit, or travel and entertainment cards to customers in Wisconsin
- Holding loans secured by real or tangible personal property located in Wisconsin
- Owning, directly or indirectly, a general or limited partnership interest in a partnership that does business in Wisconsin, regardless of the percentage of ownership
- Owning, directly or indirectly, an interest in a limited liability company treated as a partnership that does business in Wisconsin, regardless of the percentage of ownership

Under sec. 71.255(5), Wis. Stats., if one member of a combined group is doing business in Wisconsin that relates to the combined group's common unitary business, all members of the combined group are considered to be doing business in Wisconsin.

IMPORTANT: For combined groups, nexus is determined for the group as a whole. If one member of the group is doing business in Wisconsin that relates to the common unitary business, all members of the group are considered to have nexus.

For corporations selling tangible personal property, P.L. 86-272 may prohibit Wisconsin taxation in some cases. There are also specific statutory exemptions from nexus. See s. Tax 2.82, Wisconsin Administrative Code, for more information about P.L. 86-272 and what creates nexus. See sec. 71.23(3), Wis. Stats., for the specific statutory exemptions that may apply.

Entities Not Required to File

The following entities are not required to file a Wisconsin franchise or income tax return or be included in a combined return:

- Single-owner entities that are disregarded under IRC section 7701 (Instead, the owner of the disregarded entity must file a Wisconsin franchise or income tax return if otherwise required.)
- "Exempt entities," except those that have income described in a. through c.:
  - a. Unrelated business taxable income as defined in IRC section 512,
  - b. Income derived from a health maintenance organization (HMO) as defined in sec. 609.01(2), Wis. Stats., or a limited service health organization (LSHO) as defined in sec. 609.01(3), Wis. Stats., or

c. Income realized from the sale of and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in Wisconsin.

- Corporations that are completely inactive in and outside Wisconsin and have filed Form 4H
- Credit unions that don't act as a public depository for state or local government funds and have filed Form CU

"Exempt Entities." Exempt entities are described in secs. 71.26(1) and 71.45(1), Wis. Stats. Exempt entities include the following:

- Insurers exempt from federal income taxation under IRC section 501(c)(15)
- Town mutual insurers organized under Chapter 612, Wis. Stats.
- Foreign insurers
- Domestic insurers engaged exclusively in life insurance business
- Domestic insurers transacting mortgage guaranty insurance business as defined in Wisconsin Administrative Code section Insurance 6.75(2)(i)
- Some cooperatives
- Religious, scientific, educational, benevolent, or other corporations or associations of individuals not organized or conducted for profit

Franchise or Income Tax

Corporations required to file Form 4 or be included in a combined Form 4 may be subject to either franchise or income tax.

Franchise tax applies to:

- All domestic corporations (those organized under Wisconsin law), and
- Foreign corporations (those not organized under Wisconsin law) doing business in Wisconsin or buying or selling lottery prizes if the winning tickets were originally bought in Wisconsin, except where taxation is exempted by statute or barred by federal law.

The tax rate is 7.9%. Income from obligations of the United States government and its instrumentalities is included in income under the franchise tax law.

Income tax applies only to foreign corporations which are not subject to the franchise tax and which own property in Wisconsin or whose business in Wisconsin is exclusively in foreign or interstate commerce. The tax rate is 7.9%. Income from obligations of the United States government and its instrumentalities is not included in income under the income tax law.

Economic Development Surcharge

Corporations required to file Form 4 or be included in a combined Form 4 may also be subject to the economic development surcharge. The economic development surcharge is 3% of the corporation's franchise or income tax, before applying credits. The minimum economic development surcharge is $25 and the maximum is $9,800.

A corporation is subject to the economic development surcharge if it has gross receipts from all activities of $4 million or more during the taxable year. "Gross receipts from all activities" means gross receipts, gross sales, gross dividends, gross interest income, gross rents, gross royalties, the gross sales price from the disposition of capital assets and business assets, gross receipts passed through from other entities, and all other receipts that are included in gross income for Wisconsin franchise or income tax purposes.

However, the economic development surcharge doesn't apply to:

- Domestic corporations that don't have any business activities in Wisconsin,
- Foreign corporations that don't have nexus with Wisconsin; however, if one member of the combined group has nexus in Wisconsin, all combined group members have nexus in Wisconsin, or
- Nuclear decommissioning trust funds.

In a combined group, the economic development surcharge is determined for each company individually based on its own gross receipts from all activities and its share of the gross tax computed on the combined return. If one member of the combined group has nexus in Wisconsin, all members of the combined group have nexus in Wisconsin.

NOTE: Each member of a combined group computes its own economic development surcharge, if applicable, based on its own amounts reported on Form 4M, *Wisconsin Combined Group Member-Level Data*.

For more information on the economic development surcharge, refer to the instructions for line S of Form 4M. Also refer to Publication 400, *Wisconsin's Economic Development Surcharge.* You can find this publication on the Department of Revenue's web site at revenue.wi.gov, under the link for "Publications."

Separate Return or Combined Return?

Use this section to determine if a corporation must be included in a combined return or must file separately. If the corporation must file separately, see the *Form 4 Instructions for Separate Returns*.

Combined Returns and Groups in General

If a corporation is in a combined group, it should not file a separate Form 4, instead, one corporation in the group, called the "designated agent," files Form 4 on a combined basis for the group as a whole.

A corporation is in a combined group if it meets **all** of the following three tests:

1. The corporation is in a **commonly controlled group**,
2. The corporation is engaged in a **unitary business** with other corporations in the commonly controlled group, and
3. The corporation is not excluded from the combined group under the **water's edge** rules.

However, corporations that are tax-option (S) corporations, real estate investment trusts (REITs), regulated investment companies (RICs), real estate mortgage investment conduits (REMICs), or financial asset securitization investment trusts (FASITs) can't be included in a combined group. These corporations must file separate Wisconsin returns if they are otherwise required to file.

Each of the three tests is discussed below:

Test 1: Commonly Controlled Group

Section 71.255(1)(c), Wis. Stats., and s. Tax 2.61(3), Wisconsin Administrative Code, describe when a "commonly controlled group" exists. To summarize those provisions, a "commonly controlled group" means any or a combination of the following arrangements, if the "50% test" described below is met:

- A parent-subsidiary chain of corporations
- Corporations with a common owner
- Corporations owned or controlled by members of the same family
- Corporations that are "stapled entities"

50% Test. In any commonly controlled group, there must be common ownership of stock representing more than 50% of the voting power of the corporations. A corporation owns stock representing more than 50% of voting power if it owns or controls more than 50% of all classes of stock entitled to vote. See s. Tax 2.61(3)(d), Wisconsin Administrative Code, for other rules that apply in determining voting power.

The common ownership may be either direct or indirect. To determine if there is indirect ownership, you would generally use the stock attribution rules of IRC section 318. See s. Tax 2.61(3)(a), Wisconsin Administrative Code, for more details.

Following is a brief description of each type of commonly controlled group:

Parent-Subsidiary Chain. In this type of group, a parent corporation directly or indirectly owns stock representing more than 50% of the voting power of one or more corporations or chains of corporations in the group.

Corporations with Common Owner. In this type of group, a common owner directly or indirectly owns stock representing more than 50% of the voting power of the corporations in the group. The common owner may or may not be a corporation.

Corporations Owned or Controlled by Family Members. In this type of group, stock representing more than 50% of the voting power in each corporation is directly owned by, or for the benefit of, members of the same family, as determined by the third degree of kinship under sec. 990.001(16), Wis. Stats. Using the third degree of kinship, an individual is considered to be in the same family with his or her:

- Parents
- Grandparents
- Great-grandparents
- Children
- Grandchildren
- Great-grandchildren
- Siblings
- Nieces and nephews
- Aunts and uncles

Stapled Entities. In this type of group, there is an arrangement where stock representing more the 50% of the voting power of each corporation cannot be separately transferred, even if there is not actual common ownership of the stock. If a group of corporations would be considered "stapled entities" under section 269B of the IRC, without regard to whether the corporations are foreign or domestic, then the corporations are in a commonly controlled group. See s. Tax 2.61(3)(d), Wisconsin Administrative Code, for details.

Test 2: Unitary Business

In general, a "unitary business" is a group of commonly controlled companies, divisions, or branches that operates as a unit. The operations are integrated, and each company, division, or branch is dependent upon or contributory to the operation of the business as a whole. However, it isn't necessary that *each* component of the business contribute to *all* the other components.

Controlled Group Election. A commonly controlled group may elect to forego the unitary business test by treating the entire commonly controlled group as a single unitary business. This is called the "controlled group election."

NOTE: The controlled group election may simplify combined return filing because it eliminates the need to determine which corporations in the commonly controlled group are engaged in the same unitary business.

If the group makes the controlled group election, the election is generally binding on the combined group and the Department for a ten-year period, unless the group no longer has a filing requirement. For information on the controlled group election, see the instructions to Form 4R, *Federal Taxable Income Reconciliation for Wisconsin Combined Groups*.

How to Identify a "Unitary Business." If the commonly controlled group does not make the controlled group election, it uses the definition in sec. 71.255(1)(n), Wis. Stats., and guidance provided in s. Tax 2.62, Wisconsin Administrative Code, to determine if corporations in the commonly controlled group are engaged in the same unitary business. The law provides the following:

- Commonly controlled entities are engaged in a unitary business if their activities generate a synergy and mutual benefit that produces a *sharing or exchange of value* among them and a significant *flow of value* to the separate parts
- Commonly controlled entities are presumed to be a unitary business if the entities have *unity of operation and use*

The Wisconsin Statutes and Administrative Code provide further explanation and examples of the "sharing, exchange, and flow of value" concept and the "unity of ownership, operation and use" concept, summarized as follows:

Sharing, Exchange, and Flow of Value. Commonly controlled corporations are engaged in a unitary business if **any** of the following are true:

- The corporations contribute or are expected to contribute in a nontrivial way to each other's profitability
- The corporations are dependent on one another for achieving one or more nontrivial business objectives
- The corporations taken as a group offer one or more corporations in the group some economies of scale or economies of scope

To illustrate this concept, the following activities between commonly controlled corporations indicate that they are engaged in the same unitary business:

- Assisting in acquisition of assets
- Assisting with filling personnel needs
- Lending funds, guaranteeing loans, or pledging assets
- Common future planning or development of the enterprise
- Providing technical assistance, general operational guidance, or overall operational strategic advice
- Supervising
- Sharing use of trade names, patents, or other intellectual property

Unity of Operation and Use. Commonly controlled corporations are also engaged in a unitary business if they have both unity of operation and unity of use.

Unity of operation means there is functional integration among the corporations, and is evidenced by shared support functions such as:

- Centralized purchasing, marketing, advertising, accounting, or research and development
- Intercorporate sales or leases, including equipment and real estate
- Intercorporate services, including administrative, data management, computer support, employee benefits, human resources, insurance, tax compliance, legal, financial, and cash management services
- Intercorporate debts
- Intercorporate use of proprietary materials, including trade names, trademarks, service marks, patents, copyrights, and trade secrets

Unity of use is evidenced by centralized management or use of centralized policies. Factors that indicate unity of use include:

- Centralized executive force
- Interlocking directorates or corporate officers
- Intercompany employee transfers
- Common employee and executive training programs
- Common hiring and personnel policies
- Common recruiting programs
- Common employee handbooks
- Common employee benefit programs

Passive Holding Companies in Unitary Business. If a commonly controlled group includes a passive holding company that holds intangible assets that are used by other companies of the group in a unitary business, that holding company is deemed to be engaged in the unitary business, even if its activities are primarily passive.

If a passive parent holding company directly or indirectly controls one or more operating company subsidiaries engaged in a unitary business, that passive parent holding company is also engaged in the unitary business, even if its activities are primarily passive.

Presumptions to Simplify Determination. In order to simplify the determination of whether a unitary business exists, s. Tax 2.62(6), Wisconsin Administrative Code, provides that a group of commonly controlled corporations is presumed to be engaged in a unitary business if **any** of the following are true:

- The group's activities are all in the same general line of business

- The members of the group are engaged in different steps of a vertically structured enterprise
- There is strong central management coupled with the existence of centralized departments or affiliates for such functions as financing, advertising, R&D, or purchasing

Also, if a corporation forms a new corporation, the forming corporation and new corporation are presumed to be engaged in a unitary business with one another from the date of formation.

These presumptions may be rebutted by the taxpayer or by the Department based on the specific facts and circumstances.

Test 3: Water's Edge

In general, this test only applies if the company derives 80% or more of its worldwide gross income from "active foreign business income" as defined in section 861(c)(1)(B), IRC. The water's edge rules are described in detail in the instructions to line 18 of Form 4R, *Federal Taxable Income Reconciliation for Wisconsin Combined Groups*.

SUMMARY: A corporation must file in a combined return if all of the following are true:

1. The corporation is in a commonly controlled group,
2. The corporation is engaged in a unitary business with one or more other corporations in that commonly controlled group **or** the group makes the controlled group election, and
3. The corporation is not excluded from the combined group under the water's edge rules.

General Franchise or Income Tax Return Instructions

Who is the "Designated Agent?"

Every combined group must appoint a corporation to be the "designated agent" for the group. The designated agent acts on behalf of all members of the combined group for matters that relate to the combined return, such as filing the return, making estimated payments, sending and receiving correspondence relating to the combined return, and similar duties.

Any corporation in the group can be the designated agent, as long as the designated agent's taxable year is the same as the combined group's taxable year. The Department will consider the company that files the combined group's first combined return to be the designated agent, and that company stays the group's designated agent until it either leaves the group, ceases to exist, notifies the Department that it has appointed another designated agent, or the combined group is acquired by another combined group.

See s. Tax 2.65, Wisconsin Administrative Code, for rules that relate to changing the designated agent and the scope and limitations of the designated agent's responsibilities.

When and Where to File

Generally, a combined group must file its Wisconsin franchise or income tax return by the 15th day of the 3rd month following the close of its taxable year.

***Short Period Returns*.** If a corporation that is included in a combined group has a short period or joins or leaves the combined group during the taxable year, but the combined group itself does not have a short period, the designated agent need not file a short period combined return. Instead, the designated agent includes that corporation's items for the period of time it was a member of the group in the full year combined return. The due date of the combined return is based on the combined group's full taxable year.

NOTE: If a member corporation's taxable year is a short period or the corporation was not a member of the group for the entire taxable year, you will identify the period included in the combined return in item F of that member's Form 4M. See the Form 4M instructions for details.

However, if the entire combined group has a short period, the designated agent must file the combined return based on the short period, and the combined return is due on or before the federal due date for that short taxable year.

***Extensions*.** Any extension allowed by the IRS for filing a federal return automatically extends the Wisconsin due date to 30 days after the federal extended due date. You don't need to submit either a copy of the federal extension or an application for a Wisconsin extension to the Department by the original due date of your return. However, you must submit a copy of the federal extension with the Wisconsin return that you file.

If you aren't requesting a federal extension, Wisconsin law provides an automatic extension of 7 months or until the original due date of the corporation's corresponding federal return, whichever is later.

The fee for filing a late return after the extension date is $150.

CAUTION: An extension for filing the return doesn't extend the time to pay the franchise or income tax. Interest will be charged on the tax not paid by the 15th day of the 3rd month following the close of the combined group's taxable year. You can avoid interest charges during the extension period by paying the tax due by that date.

Filing Methods. Combined returns are required to be filed electronically unless an approved electronic waiver is received from the department. Paper filed returns that do not have an electronic filing waiver attached will be returned. More information is available from the Department's web page at revenue.wi.gov/taxpro/news/110727b.html Also, see s. Tax 2.67(2)(b), Wisconsin Administrative Code, for details. File electronically through the Federal/State E-Filing Program. For a list of software vendors participating in this program, visit the Department's web page at revenue.wi.gov/eserv/corp/third.html.

Period Covered by Return

Conformity with Period for Federal Return. The period covered by the combined return must be the same as the period covered by the designated agent's federal return. A 2012 Wisconsin return must be filed for calendar year 2012 or a fiscal year that begins in 2012. A fiscal year may end only on the last day of a month. The period covered by the return can't exceed 12 months.

If the designated agent reports on a 52-53 week period for federal tax purposes, it must file on the same reporting period for Wisconsin. A 52-53 week taxable year is deemed to begin on the first day of the calendar month beginning nearest to the first day of the 52-53 week taxable year, and is deemed to end on the last day of the calendar month closest to the last day of the 52-53 week taxable year.

Any change in accounting period made for federal purposes must also be made for Wisconsin purposes. For the first taxable year for which the change applies, file with the Wisconsin return a copy of the IRS's notice of approval of accounting period change if such approval is required or an explanation of the change if the IRS's approval isn't required.

Members with Differing Taxable Years. If a member of a combined group has a different taxable year than the designated agent, the designated agent must use one of two methods to convert that member's taxable year to the combined group's taxable year:

1. Prepare a separate income statement for the member for the months included in the combined group's taxable year, or
2. Use the amounts for the member's taxable year that ends during the combined group's taxable year.

Unless the Department grants permission otherwise, the designated agent must use the same method for all combined group members that have differing taxable years, and the same method must be used each year.

NOTE: If a member is on a different taxable year than the combined group, you will identify its taxable year end in item E of Form 4M. See the Form 4M instructions for details.

Accounting Methods and Elections

In computing net income, the method of accounting must be the same method used in computing federal net income. However, if the method used for federal purposes isn't authorized under the Internal Revenue Code in effect for Wisconsin, use a method authorized under the Internal Revenue Code in effect for Wisconsin.

Situations Where Installment Method Not Authorized for Wisconsin. A corporation, including a tax-option (S) corporation, entitled to use the installment method of accounting must take the unreported balance of gain on installment obligations into income in the taxable year of their distribution, transfer, or acquisition by another person or for the final taxable year for which it files or is required to file a Wisconsin franchise or income tax return, whichever year occurs first.

Further, for Wisconsin purposes, accrual basis taxpayers cannot generally use the installment method because Wisconsin did not adopt P.L. 106-573, which restored the installment method for accrual basis taxpayers for federal income tax purposes.

Change in Accounting Method. A change in accounting method made for federal purposes must also be made for Wisconsin purposes, unless the change isn't authorized under the Internal Revenue Code in effect for Wisconsin. Adjustments required federally as a result of a change made while a corporation is subject to Wisconsin taxation must also be made for Wisconsin purposes, except in the last year that a corporation is subject to taxation by Wisconsin it must take into account all remaining adjustments required.

For the first taxable year for which the change applies, file with the Wisconsin return either a copy of the application for change in accounting method filed with the Internal Revenue Service and copy of the IRS's consent, if applicable, or an explanation of the change if the IRS's approval isn't required.

Elections. As explained above, a corporation can't make different elections for federal and Wisconsin purposes with respect to accounting periods and accounting methods, unless the federal method isn't permitted under the Internal Revenue Code in effect for Wisconsin. In situations where a corporation has an option under the Internal Revenue Code and the IRS doesn't consider that option to be a method of accounting, a different election may be made for Wisconsin than for federal purposes. If federal law specifies the manner or time period in which an election must be made, those requirements also apply for Wisconsin purposes.

Payment of Estimated Tax

If the total of a combined group's franchise or income tax and economic development surcharge due is $500 or more, it generally must make quarterly estimated tax payments in order to avoid an interest charge. In general, the designated agent must make quarterly estimated tax payments on behalf of all members of the combined group. See s. Tax 2.66, Wisconsin Administrative Code, for details and exceptions.

NOTE: The combined group is generally treated as a single corporation for purposes of determining required estimated payments and interest. See the instructions to Form 4U, *Underpayment of Estimated Tax by Corporations*, for details.

Quick Refund. A combined group that overpaid its estimated tax may apply for a refund before filing its tax return if its overpayment is (1) at least 10% of the expected Wisconsin tax liability and (2) at least $500. To apply, the designated agent may file Wisconsin Form 4466W, *Corporation Application for Quick Refund of Overpayment of Estimated Tax*, after the end of the taxable year and before the corporation files its tax return.

A combined group that has a tax due when filing its tax return as a result of receiving a "quick refund" will be charged 12% annual interest on the amount of unpaid tax from the date the refund is issued to the earlier of the 15th day of the 3rd month after the close of the taxable year or the date the tax liability is paid. Any tax that remains unpaid after the unextended due date of the tax return continues to be subject to 18% or 12% annual interest, as appropriate.

Electronic Funds Transfer Required. Section Tax 1.12, Wisconsin Administrative Code, requires the payment of certain taxes by electronic funds transfer (EFT). A combined group must pay its estimated franchise or income taxes and economic development surcharge by EFT if its net tax less refundable credits on its prior year return was $1,000 or more. The Department will notify the designated agent when EFT payments are required. The designated agent will have 90 days after being notified to register for EFT. The first EFT payment is due on the first tax due date following the end of the 90-day registration period.

Combined groups not required to pay by EFT may elect to do so. For more information, visit the Department of Revenue's web site at revenue.wi.gov/eserv/eftgen.html, e-mail DORSalesandUse@revenue.wi.gov, call (608) 264-9918, or write to the EFT Unit, Wisconsin Department of Revenue, PO Box 8949, Madison, WI 53708-8949.

To make EFT payments of corporation franchise or income tax, choose the appropriate tax type code from the table below. When making EFT payments, be sure to enter the last day of your taxable year for which the payment is being made, not the last day of the quarterly installment period.

Tax Type	Tax Type Code
Corporation estimated tax payment	02100
Corporation tax due with return	02200
Corporation amended return tax due	02400
Corporation bill (except audit assessments)	02540

If you are not required to use EFT, you may make your estimated payments using Form 4-ES, *Wisconsin Corporation Estimated Tax Voucher*. You may download vouchers from the Department's web site at revenue.wi.gov, or you may request vouchers by calling any Department of Revenue office.

Components of Combined Return

Section Tax 2.67(2)(c), Wisconsin Administrative Code, prescribes the components that a combined return must have in order to be considered complete.

Components Always Required. All combined returns must have the following Department-prescribed forms:

- One **Form 4**, *Wisconsin Corporation Franchise or Income Tax Return*, for the combined group as a whole
- One **Form 4R**, *Federal Taxable Income Reconciliation for Wisconsin Combined Groups*, for the combined group as a whole
- One **Form 4M**, *Wisconsin Combined Group Member-Level Data*, for **each** member of the combined group

All combined returns must also have a copy of the complete federal return for each member of the combined group.

IMPORTANT: Every combined return must have one Form 4, one Form 4R, at least two Forms 4M, and a copy of the federal return for each member of the group.

A designated agent's filing of a Form 4M for a member of a combined group constitutes the filing of a Wisconsin franchise or income tax return by that member.

Other Supporting Schedules. The line-by-line instructions for Forms 4, 4R, 4M, and other Department-prescribed forms indicate that supporting schedules are required to compute or detail the amounts reported. Follow the line-by-line instructions carefully. Also see *Required Attachments* later in the instructions.

Methods of Attachment for Electronic Returns. If you are filing electronically, you may submit supplemental schedules that are not pre-programmed into your software in one of two ways:

1. Submitting them electronically in .pdf format along with your electronic return, or
2. Mailing them to the Department with a Form W-RA, *Required Attachments for Electronic Filing*.

Required Disclosures and Information Returns

Corporations in a combined group may be required to disclose certain types of transactions included on the return or file information returns. Each of these requirements is described below.

Disclosure of Related Entity Expenses. If the combined group will be deducting more than $100,000 of interest, rent, management fees, or intangible expenses paid, accrued, or incurred to a related person or entity, the corporation that paid the expenses must generally file Schedule RT, *Wisconsin Related Entity Expenses Disclosure Statement*, with the combined return. The $100,000 threshold is determined after considering the effect of the combined group's Wisconsin apportionment percentage. The Schedule RT instructions explain the reporting requirements.

However, even if you are not required to file Schedule RT, if the combined group is claiming deductions for interest, rent, management fees, or intangible expenses, paid, accrued, or incurred to related entities, you must add those expenses back to federal income as a Wisconsin addition modification. To the extent the expenses meet the tests for deductibility, you may subtract them out as a subtraction modification. See the Schedule V instructions and Schedule W instructions for details.

NOTE: If an expense is paid from one member of a combined group to another member of the same group and the expense is eliminated or "washes out" when the members' unitary incomes are combined, the expense is not required to be added back or reported on Schedule RT.

Corporation's Disclosure of Reportable Transactions. If a corporation was required to file any form with the Internal Revenue Service (IRS) to disclose a "reportable transaction," as defined under sec. 71.81(1)(c), Wis. Stats., you must file a copy of that form with the Department of Revenue within 60 days of the date you are required to file it for federal income tax purposes, provided that you are otherwise required to file a Wisconsin return.

This includes federal Form 8886, *Reportable Transaction Disclosure Statement,* and federal Form TD F 90-22.1, *Report of Foreign Bank and Financial Accounts.* To file these forms for Wisconsin purposes, check the "yes" box on line 57 and file the form with your Form 4.

Material Advisor's Disclosure of Reportable Transactions. A material advisor that is required to file a form with the IRS to disclose a reportable transaction must file a copy of that form with the Department of Revenue within 60 days of the date it is required for federal income tax purposes, provided that the form relates to a taxpayer that is required to file a Wisconsin franchise or income tax return.

For federal purposes, the form required for this disclosure is Form 8918, *Material Advisor Disclosure Statement*. To file this form for Wisconsin purposes, send a paper copy, separate from the Wisconsin return, to Wisconsin Department of Revenue, Tax Shelters Program, PO Box 8958, Madison, WI 53708-8958.

A "material advisor" means any person who provides any material aid, assistance, or advice with respect to organizing, managing, promoting, selling, implementing, insuring, or carrying out any reportable transaction (as defined in the U.S. Treasury Regulations) and who, directly or indirectly, derives gross income from providing such aid, assistance, or advice in an amount that exceeds the threshold amount. See sec. 71.81(1)(e), Wis. Stats., for details of the threshold amount that applies.

NOTE: For disclosures of related entity expenses, submit Schedule RT with the Wisconsin return. However, for disclosures of reportable transactions, mail a copy of the federal form, *separate from the return*, to the Tax Shelters Program address.

Uncertain Tax Positions. If you were required to file federal Schedule UTP-Uncertain Tax Position Statement, include a copy of the schedule with your Wisconsin tax return.

Information Return for Capital Stock Transfer. If one or more individual shareholders of a corporation who are Wisconsin residents transfer the corporation's capital stock during the calendar year, the corporation must file Wisconsin Form 8, *Transfers of Capital Stock*, for that calendar year. For more information, see the Form 8 instructions.

Information Return for Miscellaneous Income. If a corporation paid $600 or more in rents, royalties, or certain nonwage compensation to one or more individuals, the corporation must file an information return to report those payments. You may use Wisconsin Form 9b*, Miscellaneous Income*, or you may use federal Form 1099 instead of Form 9b. For more information, see the Form 9b instructions.

Internal Revenue Service Adjustments, Amended Returns, and Claims for Refund

Internal Revenue Service Adjustments. If a corporation's federal tax return is adjusted by the IRS and the adjustments affect the Wisconsin net tax payable, the amount of a Wisconsin credit, a Wisconsin net business loss carryforward, or a Wisconsin capital loss carryforward, you must report the adjustments to the Department of Revenue within 90 days after they become final.

Send a copy of the final federal audit reports and any associated amended Wisconsin returns to the Wisconsin Department of Revenue, PO Box 8908, Madison, WI 53708-8908. If submitting a federal audit report without an amended return, mail it to the Audit Bureau, Wisconsin Department of Revenue, Mail Stop 5-144, PO Box 8906, Madison, WI 53708-8906. Don't attach these items to the tax return for the current year.

Amended Returns. After you have filed a complete, original tax return, you may file an amended return to correct a tax return as you originally filed it or as it was later adjusted by an amended return, a claim for refund, or an office or field audit.

If you file an amended federal return and the changes affect the Wisconsin net tax payable, the amount of a Wisconsin credit, a Wisconsin net business loss carryforward, or a Wisconsin capital loss carryforward, you must file an amended Wisconsin return with the Department of Revenue within 90 days after filing the amended federal return.

To file an amended Wisconsin return, put a check mark on the designated line in item D on the front of the return, complete the return, and include an explanation of any changes made. Show computations in detail, including any applicable supplemental forms or schedules. Also show how you figured your refund or additional amount owed. Where applicable, the line-by-line instructions in these instructions provide specific instructions for how to compute the amounts on an amended return.

File your amended return electronically by using one of the third party software providers:

revenue.wi.gov/eserv/corp/third.html

If you have an approved electronic filing waiver, send amended returns to the Wisconsin Department of Revenue, PO Box 8908, Madison, WI 53708-8908. Don't attach amended returns to other tax returns that you are filing.

Claims for Refund. A claim for refund must be filed within 4 years of the unextended due date of the return. However, a claim for refund to recover all or part of any tax or credit paid as a result of an office or field audit must be filed within 4 years after such an assessment. That assessment must have been paid and must not have been protested by filing a petition for redetermination. See s. Tax 2.12, Wisconsin Administrative Code, for more information on claims for refund and other amended returns.

Final Return

If a corporation that is in a combined group liquidated during the taxable year, put a check mark on the designated line in item K1 of the member's Form 4M. Enter the date of liquidation as the end of the period included in the combined return in item F of the Form 4M. Submit a copy of the plan of liquidation and a copy of federal Form 966 with the combined return.

Generally, a final return is due on or before the federal due date. In most cases, this is the 15th day of the 3rd month after the date the corporation dissolved. The tax is payable by the 15th day of the 3rd month after the date of dissolution. However, since the taxable year is determined for the combined group as a whole, the due date of that member's final return (that is, its final Form 4M) is based on the due date of the combined return. See *Short Period Returns*, under *When and Where to File*, for details.

Penalties for Not Filing or Filing Incorrect Returns

If you don't file a franchise or income tax return that you are required to file, or if you file an incorrect return due to negligence or fraud, interest and penalties may be assessed against you. The interest rate on delinquent taxes is 18% per year. Civil penalties may be as much as 100% of the amount of tax not reported on the return. Criminal penalties for filing a false return include a fine of up to $10,000 and imprisonment.

Further, if you fail to disclose reportable transactions, you may be subject to the penalties described in sec. 71.81, Wis. Stats., including a $30,000 penalty for failure to disclose a listed transaction.

Conformity with Internal Revenue Code and Exceptions

The Wisconsin income and franchise tax law is based on the federal Internal Revenue Code ("IRC"). The IRC generally applies for Wisconsin purposes at the same time as for federal purposes. For taxable years beginning on or after January 1, 2012, Wisconsin's definition of the IRC is the IRC as of December 31, 2010 with numerous exceptions. Some of the exceptions are listed below followed by a listing of the IRC provisions that Wisconsin does follow.

NOTE: The exceptions and provisions adopted by Wisconsin listed below are those in effect as of the publication date of these instructions. It is possible that subsequent changes in Wisconsin law may add or eliminate some exceptions applicable to taxable years beginning in 2012.

Depreciation and Section 179 Expensing

If the corporation has depreciation deductions or section 179 expense deductions, it is very likely that the amount of deduction will be different for Wisconsin purposes than for federal purposes. This is because in general, Wisconsin did not adopt any federal depreciation or amortization provisions enacted for taxable years beginning on or after January 1, 2001.

Depreciation or Amortization Provisions that Don't Apply for Wisconsin. For example, the following provisions do not apply for Wisconsin purposes because they are first effective for taxable years beginning on or after January 1, 2001:

- 30% bonus depreciation (sec. 101 of P.L. 107-147, sec. 201 of P.L. 108-27, sec. 403(a) of P.L. 108-311)
- 50% bonus depreciation (sec. 201 of P.L. 108-27)

- Accelerated depreciation for Indian reservation property (sec. 316 of P.L. 108-311)
- Modification of application of income forecast method of depreciation (sec. 242 of P.L. 108-357)
- Special expensing provisions for film and television productions (sec. 244 of P.L. 108-357)
- Special rules on depreciation for aircraft (sec. 336 of P.L. 108-357)
- Modification of placed in service rule for bonus depreciation (sec. 337 of P.L. 108-357)
- Expansion of limitation on depreciation of certain passenger automobiles (sec. 910 of P.L. 108-357)
- Treatment of electric transmission property as 15-year property (sec. 1308 of P.L. 109-58)
- Expansion of amortization for certain atmospheric pollution control facilities (sec. 1309 of P.L. 109-58)
- Special expensing provisions for equipment used in refining liquid fuels (sec. 1323 of P.L. 109-58)
- Natural gas distribution lines treated as 15-year property (sec. 1325 of P.L. 109-58)
- Natural gas gathering lines treated as 7-year property (sec. 1326 of P.L. 109-58)
- Special rules for amortization of geological and geophysical expenditures (sec. 1329 of P.L. 109-58, sec. 503 of P.L. 109-222)
- Extension for placed in service rules for bonus depreciation for taxpayers affected by Hurricane Katrina, Rita, and Wilma (sec. 105 of P.L. 109-135)
- Election to amortize musical works and copyrights over a 5-year period (sec. 207 of P.L. 109-222)
- Extension for the increase in section 179 expensing limit and phase out threshold (sec. 201 of P.L. 111-147)
- Increase in section 179 dollar limit and phase-out threshold (sec. 2021 of P.L. 111-240)

CAUTION: For assets first placed in service in taxable years beginning on or after January 1, 2001, you must compute depreciation or amortization under the Internal Revenue Code as amended to December 31, 2000.

Section 179 Expense Limitations. For Wisconsin purposes, different maximum amounts and phase out thresholds apply for Wisconsin purposes than for federal purposes. Additionally, off-the-shelf computer software is not considered qualifying property for Wisconsin purposes, although it is qualifying property for federal purposes.

In general, the maximum section 179 expense and phase out threshold amounts for taxable years beginning in 2012 are as follows:

Section 179 Property in General		
	Wisconsin Law	**Federal Law**
Maximum Section 179 Expense	$25,000	$500,000
Phase out Threshold (Amt. of qualifying property)	$200,000	$2,000,000

For combined groups, the section 179 expense limitation applies to the group as a whole, in the same way it would apply to a federal controlled group as provided in section 179(d)(6), IRC.

Other Exceptions to Internal Revenue Code

The following federal provisions in effect as of December 31, 2010, are specifically excluded for Wisconsin franchise and income tax purposes:

Small Business Stock. For federal purposes, an exclusion is allowed for 50% of the gain from the sale or exchange of qualified small business stock issued after August 10, 1993, and held for more than 5 years (sec. 13113 of P.L. 103-66). For Wisconsin purposes, this section does not apply.

Installment Method for Accrual Basis Taxpayers. For federal purposes, accrual basis taxpayers may report income from an installment sale under the installment method (P.L. 106-573). For Wisconsin purposes, accrual basis taxpayers cannot use the installment method. Gain from the sale of property must be recognized the year of the sale. This does not apply to dispositions of property used or produced in farming or for certain dispositions of timeshares or residential lots.

NOTE: Wisconsin law also provides a modification relating to installment obligations. See the section *Accounting Methods and Elections* for details.

Domestic Production Activities Deduction. For federal purposes, taxpayers may claim a deduction against gross income equal to a percentage of its qualified production activities income or its taxable income without regard to the deduction (sec. 102 of P.L. 108-357). Effective for taxable years beginning on or after January 1, 2009, the domestic production activities deduction no longer applies for Wisconsin purposes.

Provisions of the Internal Revenue Code Adopted for Wisconsin Purposes:

- Section 209 of P.L. 109-222 and section 425 of Division A of P.L. 109-432 relating to loans to continuing care facilities.
- Section 844 of P.L. 109-280 relating to the treatment of annuities and life insurance contracts with a long-term care insurance feature.
- Section 117 of Division A of P.L. 109-432 relating to the extension of Archer medical savings accounts.

- Section 406 of Division A of P.L. 109-432 relating to whistleblower reforms.
- Section 409 of Division A of P.L. 109-432 relating to Superfund settlement funds.
- Section 410 of Division A of P.L. 109-432 relating to the active business test.
- Section 412 of Division A of P.L. 109-432 relating to capital gains treatment for self-created musical works.
- Section 417 of Division A of P.L. 109-432 and section 113 of P.L. 110-245 relating to gain on the sale of residence by members of the intelligence community.
- Section 418 of Division A of P.L. 109-432 relating to sales of property by judicial officers.
- Section 424 of Division A of P.L. 109-432 relating to unrelated business income for charitable remainder trusts.
- Section 403 of Division C of P.L. 109-432 relating to sale of mineral and geothermal rights to tax-exempt entities.
- Section 8215 of P.L. 110-28 relating to husband and wife partnership election.
- Section 8231 of P.L. 110-28 relating to eliminating gains from sales or exchanges of stock or securities from passive investment income of S-corporations.
- Section 8232 of P.L. 110-28 relating to treatment of bank director shares of S-corporation bank stock.
- Section 8234 of P.L. 110-28 relating to sale of interest in qualified subchapter S subsidiary.
- Section 8236 of P.L. 110-28 relating to interest deduction for electing small business trusts.
- P.L. 110-141 relating to payments from the Hokie Spirit Memorial Fund.
- Section 4 of P.L. 110-142 relating to cooperative housing pass-through treatment of interest and real estate taxes.
- Section 7 of P.L. 110-142 relating to the capital gain exclusion on sale of principal residence by surviving spouse.
- P.L. 110-172, except sections 3(b) and 11(b), (e), and (g), relating to technical corrections.
- Section 110 of P.L. 110-245 relating to gain on the sale of residence by Peace Corps volunteers.
- Section 4 of P.L. 110-246 relating to the repeal of P.L. 110-234.
- Sections 15312 – 15314 of P.L. 110-246 relating to Timber Real Estate Investment Trusts.
- Section 15316 of P. L. 110-246 relating to tax credit bonds.
- Section 15342 of P.L. 110-246 relating to the exchange of water rights.
- Sections 3031 – 3033, 3041, 3051, 3052, and 3061 of P.L. 110-289 relating to Real Estate Investment Trust income and asset tests.
- Section 3092 of P.L. 110-289 relating to nonqualified use of a principal residence.
- Section 3093 of P.L. 110-289, section 15 of P.L. 111-92, and section 551 of P.L. 111-147 relating to delay in application of worldwide allocation of interest.
- Section 9 of P.L. 110-317 relating to the limitation on funeral trusts.
- Sections 116 and 208 of Division B of P.L. 110-343 relating to publicly traded partnership income treatment of alternative fuels.
- Section 211 of Division B of P.L. 110-343 relating to transportation fringe benefit to bicycle commuters.
- Section 301 of Division B of P.L. 110-343 relating to qualified energy conservation bonds.
- Section 313 of Division C of P.L. 110-343 relating to zone academy bonds.
- Section 504 of Division C of P.L. 110-343 relating to Exxon Valdez settlements.
- P.L. 110-351 relating to the uniform definition of a child.
- Sections 1261 and 1262 of Division B of P.L. 111-5 relating to the repeal of Internal Revenue Service Notice 2008-83, which affects section 382 of the Internal Revenue Code.
- Sections 1401, 1402, 1521, 1522, and 1531 of Division B of P.L. 111-5 relating to recovery zone economic development and facility bonds, tribal economic development bonds, school construction bonds, zone academy bonds, and Build America bonds.
- Section 1541 of Division B of P.L. 111-5 relating to the pass through of tax credit bonds by regulated investment companies.
- Section 14 of P.L. 111-92 relating to military base realignment and closure.
- Section 301 of P.L. 111-147 relating to tax credit bonds treated as Build America bonds.
- Sections 531-533 of P.L. 111-147 relating to foreign trusts.
- Section 1322 of P.L. 111-148 relating to non-profit health insurers.
- Section 1515 of P.L. 111-148 relating to qualified health plan benefits under cafeteria plans.
- Section 9003 of P.L. 111-148 relating to disallowing over-the-counter medicine expenses under a flexible spending arrangement.
- Section 9021 of P.L. 111-148 relating to an income exclusion for Indian health care benefits.
- Section 9022 of P.L. 111-148 relating to cafeteria plans of small employers.
- Section 10108 of P.L. 111-148 relating to an income exclusion for free-choice vouchers to purchase a health plan.
- Section 10908 of P.L. 111-148 relating to loan repayments for health care professionals.
- Section 10909 of P.L. 111-148 relating to the income exclusion for employer-provided adoption assistance.

- Section 1407 of P.L. 111-152 relating to delay in effective date for elimination of the deduction of the subsidy for employers who maintain prescription drug coverage for retirees.
- P.L. 111-192 relating to qualified retirement plans.
- Section 1601 of P.L. 111-203 relating to the section 1256 mark-to-market requirements.
- Section 215 of P.L. 111-226 relating to the treatment of foreign subsidiary redemptions.
- Section 217 of P.L. 111-226 relating to the 80/20 rule for interest and dividends paid by a corporation.
- Section 2014 of P.L. 111-240 relating to the recognition period for S-corporation built-in gain tax.
- Section 2043 of P.L. 111-240 relating to documentation for claiming cell phones as a business expense.
- Section 2111 of P.L. 111-240 relating to allowing a section 457(b) plan to add a designated Roth account and allow rollovers to that account.
- Section 2112 of P.L. 111-240 relating to the treatment of rollovers from a section 401(k) or section 403(b) to a designated Roth account.
- Section 2113 of P.L. 111-240 relating to split annuity contracts.
- P.L. 111-325 relating to a Regulated Investment Company.

Capital Losses

Wisconsin generally follows the capital loss limitations and carryovers provided under the IRC for corporations. If a corporation has a net capital loss, the loss must be carried to other taxable years and deducted from capital gains in those years, as provided in IRC section 1212. However, for Wisconsin purposes, a corporation can't carry back a loss to taxable years before 1987. Losses that can't be carried back may be carried forward 5 years.

Limitations on Certain Federal Deductions

You may have to recompute federal deduction limitations for Wisconsin purposes if the amount of your federal taxable income for federal purposes differs from your federal taxable income as determined under the Internal Revenue Code in effect for Wisconsin. Differences in your federal taxable income for federal and Wisconsin purposes may arise for the following reasons:

- A provision of the federal Internal Revenue Code is excluded from the definition of "Internal Revenue Code" in effect for Wisconsin under sec. 71.22(4), Wis. Stats.
- Different elections under the Internal Revenue Code are made for federal and Wisconsin purposes

The deduction limitations are applied in computing federal taxable income *before* the Wisconsin modifications prescribed in secs. 71.26(2) and (3) and 71.30, Wis. Stats. Therefore, you may not recompute deduction limitations as a result of making Wisconsin modifications. For example, if your federal section 179 expense deduction was limited as a result of claiming federal bonus depreciation, you may not recompute the section 179 deduction because there is a specific Wisconsin modification (sec. 71.26(3)(y), Wis. Stats.), which disallows bonus depreciation in computing Wisconsin income.

The following examples further illustrate how the limitations on federal deductions apply in the case of section 179 expense:

Example 1: Corporation B reports federal taxable income of zero for the current taxable year and Wisconsin taxable income of $20,000. The difference results from adding to federal income the $20,000 of state income taxes paid that the taxpayer had deducted on its federal return. For federal purposes, the taxpayer has $25,000 of section 179 expense, but is limited by its business income to claiming a deduction of $5,000 and carrying forward the $20,000 balance.

For Wisconsin purposes, the section 179 deduction is limited to $5,000, the federal amount. The Wisconsin section 179 deduction cannot be recomputed since the add-back for state income taxes is a modification prescribed in sec. 71.26(3)(g), Wis. Stats.

Example 2: Corporation C reports federal taxable income of zero for the current taxable year and Wisconsin taxable income of $15,000. The taxpayer's Wisconsin income exceeds its federal taxable income because the taxpayer may not claim federal bonus depreciation for Wisconsin. For federal purposes, the taxpayer computes $44,000 of section 179 expense but can use only $17,000 of that amount due to the business income limitation. The $27,000 balance is carried forward.

For Wisconsin purposes, the taxpayer may deduct on its current Wisconsin return only the $17,000 that was used for federal purposes. Since the taxpayer's Wisconsin section 179 expense is limited to $25,000, the taxpayer may only carry forward $8,000 of the remaining amount for Wisconsin purposes.

The taxpayer must compute Wisconsin depreciation for the current year based on a section 179 deduction of $25,000. In future years when the carryover is used on the federal return, the taxpayer must add back to Wisconsin income the $19,000 difference between the $27,000 federal section 179 expense carryforward and the $8,000 Wisconsin carryforward.

Example 3: Corporation F claims no section 179 expense deduction but $16,000 of bonus depreciation on its federal return for the current taxable year. The taxpayer could have elected to claim a section 179 expense deduction on its federal return in addition to or instead of the bonus depreciation. The taxpayer may elect to claim the $16,000 as a section 179 expense deduction on its Wisconsin return so that the computation of its regular MACRS allowance is the same for federal and Wisconsin purposes.

Federal Consolidated Return Regulations

In general, Wisconsin does not follow sections 1501 to 1505, 1551, 1552, 1563, or 1564 of the IRC, relating to consolidated returns. However, for combined groups, Wis-

consin applies certain regulations under section 1502, IRC, similarly to how they would apply to consolidated groups for federal purposes. See s. Tax 2.61(6), Wisconsin Administrative Code for details. Also see instructions for Form 4R, *Federal Taxable Income Reconciliation for Wisconsin Combined Groups*.

Differences Between Federal and Wisconsin Basis of Assets

Assets of Previously Nontaxable Corporations. For the first year a corporation is taxable in Wisconsin, the basis of its assets is its federal basis as computed under the "Internal Revenue Code" as the term is defined for Wisconsin purposes in sec. 71.22(4), Wis. Stats. Provisions of the federal Internal Revenue Code that don't apply for Wisconsin purposes, such as bonus depreciation, are ignored when determining the corporation's asset basis for Wisconsin purposes.

For example, assume Corporation X, a calendar year corporation, was incorporated in 1990 but did not have nexus in Wisconsin until 2012. Corporation X has an asset it purchased for $100,000 on January 1, 2011. Assume the asset is depreciable under MACRS with a 5-year life. For federal purposes, the corporation took a bonus depreciation deduction. As a result, its adjusted basis for federal purposes on January 1, 2012 is $40,000 (= $100,000 – $50,000 bonus depreciation – MACRS deduction of [.20 x $50,000]). For Wisconsin purposes, its adjusted basis on January 1 is $80,000 (= $100,000 – MACRS deduction of [.20 x $100,000]). The Wisconsin basis is not reduced by bonus depreciation since Wisconsin excludes the bonus depreciation provisions from its definition of "Internal Revenue Code."

Assets Placed in Service Before 1987. An asset must continue to be depreciated or amortized under the method allowable for Wisconsin purposes for the year in which it was placed in service. Thus, the differences in Wisconsin and federal depreciation and amortization that existed before January 1, 1987 continue to exist. These differences are described in items a. through i. below.

a. IRC section 168(f)(8), relating to a special rule for leases (safe harbor), didn't apply for Wisconsin purposes. See *Wisconsin Tax Bulletin* 84 (October 1993, page 22) for further details about Wisconsin's treatment of safe harbor leases.

b. Telegraph, pipeline, gas, electric, steam, and telephone companies (defined under secs. 76.02(4), Wis. Stats. (1983-84), 76.02(5b), 76.28(1)(e)1., 3., and 4., and 76.38(1)(c), Wis. Stats. (1985-86), except for specialized common carriers) had to compute depreciation under the IRC in effect on December 31, 1980, for assets acquired during the period beginning with the 1981 taxable year and ending on December 31, 1986. **Note:** The *Beatrice Cheese, Inc.* decision described in item e below doesn't apply to these companies.

c. Waste treatment and pollution abatement plants and equipment could be deducted or amortized pursuant to sec. 71.04(2b) or (2g), Wis. Stats. (1985-86).

d. Alternative energy systems could be deducted or amortized pursuant to sec. 71.04(16), Wis. Stats. (1985-86).

e. The federal accelerated cost recovery system (ACRS) wasn't allowable for Wisconsin purposes for property located outside Wisconsin and first placed in service from January 1, 1983, through December 31, 1986. Instead, depreciation was to be computed under a method permitted by the IRC as of December 31, 1980, or, in the alternative, the IRC applicable to the calendar year 1972.

However, the Wisconsin Tax Appeals Commission declared this provision unconstitutional in *Beatrice Cheese, Inc. vs. Wisconsin Department of Revenue* (February 24, 1993). Therefore, corporations have the option of either claiming the same depreciation deduction as for federal purposes, or continuing their present method of depreciation. For more information, see the tax release in *Wisconsin Tax Bulletin* 84 (October 1993, page 18).

f. A corporation electing to claim an investment tax credit for federal income tax purposes could either claim the credit and reduce the depreciable basis of the property by one-half of the credit, or claim a reduced investment credit and not reduce the depreciable basis of the property. These corporations weren't required to reduce the depreciable basis of the investment credit property for Wisconsin purposes.

g. Intangible drilling costs incurred after the 1980 taxable year are deductible for federal purposes under IRC section 263(c). Before the 1987 taxable year, the amount of depletion, depreciation, or write-off allowable for Wisconsin purposes was limited to that allowable under the IRC in effect on December 31, 1980, or, in the alternative, the IRC applicable to the calendar year 1972.

h. For the following property acquired in the 1986 taxable year, but before January 1, 1987, depreciation must be computed under the December 31, 1980, IRC: (1) residential real property, and (2) property used in farming, as defined in IRC section 464(e)(1), if the corporation's Wisconsin gross farm receipts or sales exceeded $155,000 for the 1986 taxable year.

i. For Wisconsin purposes, before the 1987 taxable year, corporations (except regulated investment companies and real estate investment trusts) couldn't claim section 179 expense. Instead, depreciation was allowable on the cost basis of the property, without reduction for the amount the corporation may have elected to expense under section 179 for federal purposes.

General Instructions for Apportionment

Who Must Use Apportionment

A corporation engaged in a unitary business in and outside Wisconsin or a combined group engaged in business in and outside Wisconsin must report a portion of its total net income to Wisconsin using the apportionment method, unless the Department gives permission to use separate accounting.

To use the apportionment method, a corporation or combined group must have business activity sufficient to create nexus in Wisconsin and at least one other state or foreign country. “Nexus” means that a corporation’s business activity is of such a degree that the state or foreign country has jurisdiction to impose an income tax or franchise tax measured by net income.

Wisconsin’s Administrative Code provides more detailed information about when apportionment is required. The following sections may be helpful:

- Tax 2.39, Apportionment Method
- Tax 2.62, Unitary Business
- Tax 2.82, Nexus

Apportionment Method

Under the apportionment method, a corporation or combined group shows all of its income and deductions attributable the unitary business and assigns a part to Wisconsin according to an apportionment percentage. In a combined group, the apportionment percentage is determined by the sum of each combined group member’s apportionment factor numerator divided by the sum of each combined group member’s apportionment factor denominator.

For most corporations required to use apportionment, the apportionment factor numerator is Wisconsin sales and the denominator is total company sales. This is known as the “single sales factor” method. Corporations that use the single sales factor method use Part I of Form 4A-1, *Wisconsin Apportionment Data for Single Factor Formulas*, to compute their apportionment percentage.

However, certain specialized industries do not use the single sales factor method. Instead, they apportion their incomes under provisions of the Wisconsin Administrative Code, or in the case of insurance companies, under a separate subchapter of the Wisconsin Statutes. Companies that don’t use the single sales factor include:

- Direct air carriers
- Motor carriers
- Railroads and sleeping car companies
- Pipeline companies
- Financial organizations, including financial institutions, brokers-dealers, investment advisers, investment companies, and underwriters
- Telecommunications companies
- Insurance companies

Among these specialized industries, financial organizations and insurance companies have single-factor formulas that are similar to the single sales factor. Financial organizations use a receipts factor, and insurance companies use a premiums factor.

All corporations that use a single sales factor, receipts factor, or premiums factor use the applicable part of Form 4A-1 to compute their numerator and denominator. All corporations that use a multiple-factor formula use the applicable part of Form 4A-2, *Wisconsin Apportionment Data for Multiple Factor Formulas*, to compute their numerator and denominator.

For corporations that are not in combined groups, the apportionment percentage is the ratio computed on Form 4A-1 or Form 4A-2. For combined groups, each corporation’s numerator and denominator from Form 4A-1 or Form 4A-2, as applicable, is carried forward to Form 4A, *Wisconsin Apportionment Data for Combined Groups*, where the combined group computes its apportionment percentage.

Nonapportionable Income

A corporation or combined group that is required to use apportionment may have nonapportionable income. Nonapportionable income is income which is allocable directly to a particular state. It includes income or loss derived from the sale of nonbusiness real or tangible personal property or from rentals and royalties from nonbusiness real or tangible personal property. This income is assigned to the state where the property is located.

Nonapportionable income also includes income that is realized from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in Wisconsin.

Total nonapportionable income (or loss) is removed from net income before the apportionment percentage is applied. The amount allocable to Wisconsin is then combined with the Wisconsin share of apportionable income to arrive at Wisconsin net income. If a corporation has nonapportionable income, it must report that income on Form 4N, *Wisconsin Nonapportionable and Separately Apportioned Income*.

CAUTION: For taxable years beginning before January 1, 2009, sec. 71.25(5)(b)2., Wis. Stats., provided that intangible income of a personal holding company was nonapportionable and assigned to the state of incorporation. For taxable years beginning on or after January 1, 2009, sec. 71.25(5)(b)2., Wis. Stats., is repealed. Intangible income of a personal holding company is apportionable unless it qualifies as nonapportionable income under the same standard that applies to other corporations.

Separately Apportioned Income

A corporation that is a combined group member may have income that is required to be apportioned separately from the group's combined unitary income. This may happen in cases where the member has income or loss from the unitary business that is excluded from combined unitary income under the water's edge rules. It may also happen in cases where the member has apportionable income or loss from a separate unitary business. In either case, the corporation would complete Form 4N to report the separately apportioned income. See the Form 4N instructions for details.

Corporate Partners or LLC Members

A corporation that is a general or limited partner of a partnership must include its share of the numerator and denominator of the partnership's apportionment factors in its own apportionment factors. A corporation that is a member of a limited liability company (LLC) treated as a partnership for federal tax purposes must include its share of the numerator and denominator of the LLC's apportionment factors in its own apportionment factors.

NOTE: A corporation that is a general or limited partner in a partnership or a member of an LLC treated as a partnership should obtain a detailed breakdown of the partnership's or LLC's apportionment factors so the corporation can include its share of those factors in the computation of its own apportionment factors.

However, income from a partnership or LLC may be nontaxable under the principles of the U.S. Supreme Court decision in *Allied-Signal v. Director, Div. of Taxation*, 504 U.S. 768 (1992), if the investment is passive and does not serve an operational function. In this case, the corporation would not include its share of the partnership's or LLC's apportionment factors in the numerator and denominator of its apportionment factors.

Separate Accounting

A corporation that has income or loss from a business outside Wisconsin that is not part of a unitary business cannot use apportionment. Instead, it must determine the income attributable to Wisconsin by separate accounting. Under separate accounting, the corporation must keep separate records of the sales, cost of sales, and expenses for the Wisconsin business. The corporation uses Form 4C, *Separate Accounting Data*, to report the amount attributable to Wisconsin by separate accounting.

A unitary business may use separate accounting only with the approval of the Department. In the application for approval, the corporation must explain, in detail, why separate accounting more clearly reflects the corporation's Wisconsin income. See the instructions for Form 4C for how to obtain approval to use separate accounting.

Treatment of Specialized Industries and Entities

Foreign Sales Corporations (FSCs)

FSCs no longer receive special treatment for Wisconsin. The income and tax of FSCs are computed in the same manner as for other corporations.

Interest Charge Domestic International Sales Corporations (IC-DISCs)

IC-DISCs have no special status for Wisconsin tax purposes. An IC-DISC that is a viable corporation with substance and has nexus in Wisconsin is taxed like any other corporation. However, if an IC-DISC doesn't carry on any substantial business activities and does nothing to earn the income that it reports, its net income is allocated to the corporation that earned the income.

Insurance Companies

Whether an insurance company is filing a separate Wisconsin return or is included in a combined return, it may be required to make certain adjustments that are unique to insurance companies. These adjustments include:

- Adding back loss carryforward deducted in the calculation of federal taxable income and dividend income excluded from federal taxable income
- Adding back the IRC section 847 deduction, relating to an additional deduction for insurers required to discount unpaid losses (this deduction isn't allowed for Wisconsin purposes)
- Subtracting nontaxable income attributable to life insurance operations
- Reducing current year net business loss by the amount of dividends received deduction
- Adjusting net tax liability so that it doesn't exceed 2% of gross premiums plus 7.9% of income realized from lottery prizes

All of these adjustments are computed on Wisconsin Schedule 4I, *Wisconsin Adjustments for Insurance Companies*. Schedule 4I is prepared separately for each corporation that is an insurance company. The amounts on Schedule 4I flow through to Schedule V, Schedule W, or Form 4M, as appropriate. See the Schedule 4I instructions for details.

If an insurance company is a small company as defined in IRC section 831(b)(2), the company may elect to be taxed on taxable investment income as provided in IRC section 831(b), rather than on net income.

Personal Holding Companies

Personal holding companies no longer receive special treatment for Wisconsin. The intangible income of a personal holding company is apportionable income unless it qualifies as nonapportionable income under the same standard that applies to corporations that aren't personal holding companies.

RICs, REMICs, REITs, and FASITs

Corporations that qualify as regulated investment companies (RICs), real estate mortgage investment conduits (REMICs), real estate investment trusts (REITs), or financial asset securitization investment trusts (FASITs) under the Internal Revenue Code cannot be included in a combined group. Rather, they must file as separate entities. See s. Tax 2.61(2)(c), Wisconsin Administrative Code, for details.

Tax Exempt Organizations

If a tax exempt organization is a corporation and has unrelated business taxable income as defined in IRC section 512, it may be included in a combined group if it meets the three tests presented in the section *Separate Return or Combined Return?*. If the organization is in a combined group, it must be included in the combined group's Form 4. If the organization is not in a combined group, it must file Form 4T, *Wisconsin Tax Exempt Organization Business Franchise or Income Tax Return*.

Regardless of whether the tax exempt organization is a member of a combined group, you should not make any Wisconsin addition or subtraction modifications to its federal unrelated business taxable income except to account for IRC provisions which were not adopted for Wisconsin purposes. For example, you would add bonus depreciation back to federal taxable income since Wisconsin did not adopt the IRC section that provides for bonus depreciation. However, you would not make addition modifications to include Wisconsin credits in income.

Urban Transit Companies

Certain urban transit companies are subject to a special tax under sec. 71.39, Wis. Stats. Contact the Department for further information.

Order of Preparing a Combined Return

To prepare a combined return, you will need to make computations on various supporting schedules. The table below presents the computations you'll need to make, the line of Form 4 that corresponds to the computation, and the form or schedule you will need.

This booklet only includes line-by-line instructions for Form 4 itself. You may obtain the other forms on the Department's web site at revenue.wi.gov, under the "Forms" link. Also see *Additional Information, Assistance and Forms* at the end of these instructions.

Line of Form 4	Description of Computation	Form or Schedule
1	Identify the members of the combined group and reconcile their federal taxable incomes to the federal consolidated return, if any	Form 4R
1	Make adjustments to federal income to account for intercompany deferrals and to apply certain federal limitations to the combined group as a whole	Form 4R
2, 4	Make Wisconsin modifications to the federal income	Schedule V Schedule W Schedule Y
6	Reverse out nonapportionable income and other income not includable in combined unitary income	Forms 4N
8	Compute each member's apportionment factor numerator and denominator, if applicable	Forms 4A-1 or 4A-2
8	Compute the combined group's apportionment percentage	Form 4A
9	Compute each member's share of combined unitary income, including current year loss offsets for groups that don't use apportionment	Form 4 Forms 4M
10	Compute sum of each member's income excluded from combined unitary income that is taxable to Wisconsin	Forms 4M
12	Compute sum of each member's additional capital loss allowable	Forms 4M (Form 4CL)
15	Adjust current year net business loss of insurance companies	Forms 4M (Schedule 4I)
17	Compute sum of members' net business loss carryforwards used	Forms 4M (Form 4BL)
21	Compute sum of members' gross tax	Forms 4M
22	Compute sum of members' nonrefundable credits used or (if applicable) shared	Forms 4M (Credit Schedules, Form 4CS)
23	Compute sum of members' relocated business credits	Forms 4M (Credit Schedules)
25	Compute sum of members' economic development surcharge liabilities	Forms 4M
29	Report estimated payments (and carryovers) from members other than the designated agent and compute the sum of all estimated payments and carryovers to apply to the combined return	Forms 4M
30	Compute sum of all members' withholding credits	Forms 4M
31	Compute sum of all members' refundable credits	Forms 4M (Credit Schedules)
36	Compute interest, penalty, and late filing fee; treating the combined group as a single corporation	Form 4U

Note that you'll need the members' Forms 4M to make most of the computations after apportionment. For this reason, you must complete each member's Form 4M before you complete lines 10 through 48 of Form 4.

CAUTION: Complete Form 4M for each member before you complete lines 10 through 48 of the combined Form 4.

Line-by-Line Instructions for Form 4

You must complete pages 1, 2, and 3 of Form 4 and the appropriate schedules referenced on Form 4. Do not enter "See attached" instead of completing the entry spaces. If more space is needed, submit separate sheets using the same size and format as the printed forms.

Round cents to the nearest whole dollar by eliminating amounts less than 50 cents and increasing amounts from 50 cents through 99 cents to the next higher dollar.

NOTE: These instructions are for combined returns only. Corporations that aren't in a combined group should see the *Form 4 Instructions for Separate Returns.*

CAUTION: Federal line numbers referred to on Form 4 and in these instructions may change.

■ **Header Information –** Before completing items A through K, fill in the combined group's 2012 taxable year at the top of the form and the designated agent's name and address. The name and address information should be written on single lines. Do not stack the information on the lines. If more room is needed, abbreviate where possible.

Do not write "None" on the amount lines if there is not an entry for the lines. Instead, leave the lines blank.

■ **Item A. Federal Employer Identification Number –** Enter the designated agent's federal employer identification number (FEIN).

■ **Item B. Business Activity (NAICS) Code –** Enter the designated agent's principal business activity code, based on the North American Industry Classification System (NAICS), from its federal return. If the federal return is a consolidated return and the designated agent is not the parent company, find the NAICS code for its principal business activity at census.gov/eos/www/naics/.

■ **Item C. State and Year of Incorporation –** Enter the 2-letter postal abbreviation for the state (or name of the foreign country) under whose laws the designated agent corporation is organized and the year of incorporation.

■ **Item D1. Amended Return –** Check here if this is an amended return. Circle the number in front of the lines that you are changing and provide a detailed explanation of the changes made, including any supporting form or schedule. For example, if you are amending the research credit, circle the "22" before "Nonrefundable credits" and submit a corrected Schedule R and Form 4M for the member that earned the credit, along with the explanation of the change.

■ **Items D2 to D5.** Combined return filers may ignore these items because you will report them for each member on Form 4M, as applicable.

■ **Item E. Combined Return –** Check the box to indicate this is a combined return and enter the number of companies included in the return. This number should match the number of Forms 4M that will be filed with Form 4.

■ **Item F. Extended Due Date –** Check here if the combined group has an extension of time to file its Wisconsin return, and enter the extended due date.

■ **Item G. No Business Transacted in Wisconsin –** Combined return filers may ignore this line.

■ **Item H. Schedule RT Required –** Check here if the combined group is filing Schedule RT with its return. Schedule RT is generally required if the combined group will be deducting more than $100,000 of interest, rent, management fees, or intangible expenses paid, accrued, or incurred to a related person or entity.

The $100,000 threshold is determined after considering the effect of the combined group's Wisconsin apportionment percentage. Expenses that are paid between combined group members aren't required to be disclosed if they are eliminated or "wash out" when the members' unitary incomes are combined. The Schedule RT instructions explain the reporting requirements.

CAUTION: Regardless of whether you are required to file Schedule RT, you may be required to make an addition modification for related entity expenses. See the Schedule V instructions for details.

■ **Item I. Insurance Company Indicator –** Combined return filers may ignore this line. If any member of the group is an insurance company, you will identify its status as an insurance company on item J of that member's Form 4M.

■ **Item J. Federal Consolidated Return –** If the members of the combined group participated in more than one federal consolidated return, ignore item J. You will identify the federal consolidated returns on Form 4R.

■ **Item K. Internal Revenue Service Adjustments –** If a corporation's federal tax return is adjusted by the IRS and the adjustments affect the Wisconsin net tax payable, the amount of a Wisconsin credit, a Wisconsin net business loss carryforward, or a Wisconsin capital loss carryforward, you must report the adjustments to the Department of Revenue within 90 days after they become final.

File your amended return electronically by using one of the third party software providers:

revenue.wi.gov/eserv/corp/third.html

If you have an approved electronic filing waiver, send a copy of the final federal audit reports and any associated amended Wisconsin returns to the Wisconsin Department of Revenue, PO Box 8908, Madison, WI 53708-8908.

If submitting a federal audit report without an amended return, mail it to the Audit Bureau, Wisconsin Department of Revenue, Mail Stop 5-144, PO Box 8906, Madison, WI 53708-8906. Don't attach these items to the tax return for the current year.

■ **Line 1. Federal Taxable Income –** You must complete Form 4R to compute the amount to enter on line 1. The amount on Form 4, line 1 must equal the amount on Form 4R, line 26. This amount represents the total federal taxable income of the combined group, after applying certain limitations at the combined group level but before Wisconsin modifications. However, this amount does not include non-sharable net capital loss carryovers or capital gain/loss items that are not includable in combined unitary income See the instructions to Form 4R and Form 4CL for details.

■ **Lines 2 and 4. Wisconsin Additions and Subtractions –** This is where you make addition and subtraction modifications to the amount you entered on line 1 in order to account for differences between taxable income under Wisconsin law and under federal law. Use Schedule V to report addition modifications and Schedule W to report subtraction modifications.

If you have any dividends that qualify for the Wisconsin dividends received deduction, you'll also need Schedule Y to compute the subtraction modification for dividends to enter on Schedule W, line 1.

You do not need to prepare more than one Schedule V, W, or Y. Instead, you may aggregate all of the Wisconsin modifications for each corporation in the group in one set of Schedules V, W, and Y, as applicable. However, you must submit a supplemental schedule to show the addition and subtraction modifications attributable to each company.

NOTE: You don't need to prepare separate Schedules V, W, and Y for each member.

■ **Line 6. Total Nonapportionable and Separately Apportioned Income –** Complete this line only if any member of the group has nonapportionable income, items accounted for using separate accounting, or other income or loss that cannot be included in combined unitary income. For example, this line may apply in cases where a combined group member has income from the unitary business that is excluded from combined unitary income under the water's edge rules.

If any member of the group has income or loss reportable on line 6 (often called income or loss from "separate entity items"), prepare Form 4N for each applicable member and enter the total from line 8 of all Forms 4N.

The total on line 6 represents taxable income that is excluded from the group's combined unitary income. If any of this amount is allocable or separately apportionable to Wisconsin, you will enter the Wisconsin amount later on line 10. See the instructions to Form 4N for details.

■ **Line 8. Wisconsin Apportionment Percentage –** If the combined group is using apportionment, complete Wisconsin Form 4A-1 or Form 4A-2, as applicable, separately for each member of the group. However, as a substitute for preparing multiple Forms 4A-1 and 4A-2, you may prepare a columnar spreadsheet with the rows representing the appropriate lines of Form 4A-1 or Form 4A-2, as applicable, and each column representing a company in the combined group.

Then, prepare Form 4A for the group as a whole, On Form 4A, you will enter each company's apportionment factor numerator and denominator from Form 4A-1 or 4A-2, as applicable, and sum the apportionment factors to arrive at the combined group's Wisconsin apportionment percentage to enter on line 8. See the instructions to Forms 4A, 4A-1, and 4A-2 (as applicable) for details. Also see the *General Instructions for Apportionment* presented earlier in these instructions.

If the combined group doesn't use apportionment because it does business only in Wisconsin, enter "100.0000% and check the 100% apportionment box."

NOTE: On line 8, ***Fill all spaces to the right of the decimal point.*** Round to the nearest ten-thousandths of a percent (for example, 12.3456%).

■ **Line 10. Wisconsin Nonapportionable and Separately Apportioned Income –** Complete this line only if you entered an amount on line 6 and some of the income you excluded from combined unitary income is allocable or apportionable to Wisconsin. For each applicable member, compute this amount on Form 4N, line 14, and enter it on line M of the member's Form 4M. On line 10, enter the sum of the amounts on line M of the members' Forms 4M. See the instructions to Forms 4N and 4M for details.

■ **Line 12. Net Capital Loss Adjustment –** Enter the sum of the amounts on line N of each member's Form 4M. For each applicable member, this amount represents an additional deduction allowable to the member to account for net capital loss carryovers that could not be shared with the rest of the group. To compute the amount on line N of Form 4M, you must prepare Form 4CL, *Net Capital Loss Adjustments for Combined Group Members*, for each applicable member. See the instructions for Forms 4CL and 4M for details.

■ **Line 15. Loss Adjustment for Insurance Companies –** Enter the sum of the amounts on line O of each member's Form 4M. This is where insurance companies adjust their current year net business loss so that the carryforward to next year is computed without regard to the dividends received deduction, as required under sec. 71.45(4), Wis. Stats. For each applicable insurance company in the group, you would compute this amount on line 24 of Schedule 4I. See the Schedule 4I instructions for details.

■ **Line 17. Wisconsin Net Business Loss Carryforward –** Enter the sum of the amounts on line P of each member's Form 4M. In Part II of Form 4M, each combined group member applies its own net business loss carryforward against its own income and accounts for any net business loss carryforwards that are eligible to be shared. See the Form 4M instructions for details.

See section Tax 2.61(9), Wisconsin Administrative Code, for rules that explain when net business loss carryforwards may be shared among combined group members and how the sharing is administered.

CAUTION: On line 17, do not enter the sum of all members' amounts from Form 4BL. You must first compute Part II of each member's Form 4M to determine the amount of loss eligible to be used. On line 17, enter the sum of the members' amounts on Form 4M, line P.

■ **Line 18. Wisconsin Net Income (Loss) –** Subtract line 17 from line 16. If line 16 shows a loss, enter the loss from line 16 on line 18.

■ **Line 19. Tentative Gross Tax –** Enter 7.9% of the Wisconsin net income reported on line 18.

■ **Line 20. Tax Adjustment for Insurance Companies –** If any member of the group is an insurance company, you may need to adjust that member's tax liability so that it does not exceed 2% of gross premiums plus 7.9% of income realized from lottery prizes. For each applicable member, compute the adjustment on Schedule 4I, line 30. You will take this adjustment into account when you compute gross tax on line Q that member's Form 4M. See the instructions for Form 4M and Schedule 4I for details. On line 20 of Form 4, enter the sum of the amounts reported on Schedule 4I, line 30 for each applicable member.

■ **Line 21. Gross Tax –** Enter the sum of the gross tax amounts on line Q of each member's Form 4M. ***Don't subtract line 20 from line 19.*** Although in many cases the result will be the same whether you sum the amounts from Forms 4M, line Q or subtract line 20 from line 19, in some cases your tax liability will be incorrect if you subtract line 20 from line 19.

CAUTION: You must compute gross tax on line 21 by summing the amounts from each member's Form 4M, line Q. In a combined return, you cannot subtract line 20 from line 19.

■ **Line 22. Nonrefundable Credits –** Enter the sum of the amounts on line R of each member's Form 4M. In Part III of Form 4M, each combined group member applies its own available credits against its own tax liability, and also applies any research credits that are eligible to be shared with the other members of the group. See the Form 4M instructions for details.

CAUTION: On line 22, do not enter the sum of all members' available credits. You must first compute Part III of each member's Form 4M to determine the amount of credit eligible to be used. On line 22, enter the sum of the members' amounts on Form 4M, line R.

If any member of the group is sharing its research credits, you'll need to complete Form 4CS, *Sharing of Research Credits for Combined Group Members*. See the Form 4CS instructions for details of what research credits may be shared and how to compute the shared amount. Also see s. Tax 2.61(10), Wisconsin Administrative Code, for rules that apply to sharing research credits.

■ **Line 23. Relocated Business Credit --** The eligibility for and the calculation of the relocated business credit for combined return filers is determined separately by each member of the combined group. Each member of the combined group should complete Part I of Schedule RB to determine if they are eligible for the credit and complete the remainder of the schedule if they eligible to claim the credit. The members of the combined group who are eligible to claim the credit will then complete Form 4M to determine their share of the combined groups income and their credits before applying the relocated business credit. The relocated business credit will be equal to the amount of tax remaining after subtracting line R from line Q on Form 4M. The designated agent filing Form 4 on behalf of the combined group will combine each members relocated business credits from Form 4M and enter the total on line 23 of Form 4. See the Schedule RB instructions for further information.

■ **Line 24. Net Tax –** Subtract lines 22 and 23 from line 21. If the total of lines 22 and 23 is more than line 21, enter zero (0).

■ **Line 25. Economic Development Surcharge –** Enter the sum of each member's economic development surcharge reported on Form 4M, line S. See the Form 4M instructions for details.

■ **Line 26. Endangered Resources Donation –** Your donation supports the preservation and management of more than 200 endangered and threatened Wisconsin plants and animals. It also helps protect Wisconsin's finest remaining examples of prairies, forests, and wetlands.

Support endangered resources in Wisconsin. Fill in line 26 with the amount you wish to donate. Your gift will either reduce your refund or be added to tax due.

You can make an online donation at the following web site: dnr.wi.gov/topic/endangeredresources/donate.html

You can also send a check directly to the Endangered Resources Fund, Department of Natural Resources, PO Box 7921, Madison, WI 53707-7921.

■ **Line 27. Veterans Trust Fund Donation –** You may designate an amount as a veterans trust fund donation. Your donation will be used by the Wisconsin Department of Veterans Affairs for the benefit of veterans or their dependents. Fill in line 27 with the amount you wish to donate. Your donation will either reduce your refund or be added to tax due.

■ **Line 29. Estimated Tax Payments –** Enter the total estimated tax payments applicable to the period included in the combined return, regardless of whether those payments were made by designated agent or by other members of the combined group. Include EFT payments, payments made with a Form 4-ES voucher, or overpayments applied from prior years' returns, minus any "quick refund" applied for on Form 4466W.

In general, the designated agent must make estimated payments on behalf of the entire combined group. However, if you are applying payments or carryovers of prior year

overpayments from members other than the designated agent, you must use Part IV of Form 4M to provide the information the Department will need to apply those payments to the combined return. See the Form 4M instructions for details.

NOTE: If you are applying estimated tax payments or a prior year overpayment from a member of the group that isn't the designated agent, you must complete Part IV of Form 4M.

■ **Line 30. Wisconsin Tax Withheld –** Enter the sum of each member's Wisconsin tax withheld as reported on Form 4M, line U. See the Form 4M instructions for details. If this is an amended return, enter the Wisconsin tax withheld reported on your original return, unless the amount you originally reported was incorrect.

■ **Line 31. Refundable Credits –** Enter the sum of the each member's refundable credits reported on Form 4M, line V. See the Form 4M instructions for details.

■ **Line 32. Amended Return - Amount Previously Paid -** Complete this line only if this is an amended 2012 Form 4. Fill in the amount of tax you paid with your original Form 4 plus any additional amounts paid after it was filed.

If you did not pay the full amount shown your original Form 4, fill in only the portion that you actually paid. Also, include any additional tax that may have resulted if your original return was changed or audited. This includes additional tax paid with a previously filed 2012 amended return and additional tax paid as a result of a department adjustment to your return. Do not include payments of interest or penalties.

■ **Line 34. Amended Return - Amount Previously Refunded -** Complete this line only if this is an amended 2012 Form 4. Fill in the refund from your original 2012 return (not including the amount applied to your 2013 estimated tax).

If your refund was reduced because you owed underpayment interest or any penalties, fill in the amount of your refund before the reduction for underpayment interest or penalty. If your 2012 return was adjusted by the department, fill in the refund shown on the adjustment notice you received. If the adjustment notice shows a tax due rather than a refund, complete line 32 instead of line 34.

■ **Line 36. Interest, Penalty, and Late Fee Due –** The combined group is generally treated as a single corporation for purposes of determining required estimated payments and any interest, penalty, or late fee due. See the instructions to Form 4U for details. Enter the amount from Form 4U, line 17 or 26. Check the box if you figured underpayment interest using the annualized income installment method on Form 4U, page 2.

If you are filing an amended return and you were previously assessed interest for underpayment of estimated taxes, complete an amended Form 4U, Part I, based on the total of the amounts shown on lines 24 and 25. Enter the difference between the underpayment interest from the amended Form 4U, line 17, and the amount you previously paid on line 36. Show an overpayment as a negative number. File Form 4U with your amended return. Otherwise, leave line 36 blank. The Department will compute interest on the amount of refund approved or tax owed.

■ **Line 37. Tax Due –** If the total of lines 28 and 36 is larger than line 35, subtract line 35 from the total of lines 28 and 36. Pay by electronic funds transfer through My Tax Account, the Department's free online business tax system, or mail your check with a 2012 Form 4-ES, *Corporation Estimated Tax Voucher,* to the address shown on the voucher. Otherwise, paper clip your check to the front of Form 4.

■ **Line 38. Overpayment –** If line 35 is larger than the total of lines 28 and 36, subtract the total of lines 28 and 36 from line 35.

CAUTION: If you must recapture a development zones investment credit because the property is disposed of or ceases to be qualified property before the end of the recapture period, add the amount from Schedule DC, line 34, to the tax due on line 37 or reduce the overpayment on line 38.

■ **Line 39. 2013 Estimated Tax –** Enter the amount of any overpayment from line 38 that is to be credited to the combined group's 2013 estimated tax. The balance of any overpayment will be refunded. An overpayment shown on a final return will be refunded to the designated agent. You cannot claim these payments on the surviving corporation's return in a merger situation.

If this is an amended return and you have already filed your 2013 return, include on line 39 the overpayment that you claimed as a credit on your 2013 return or on your previously filed original or amended 2012 return. Otherwise, you may allocate the overpayment from line 38 between line 39 and line 40 as you choose.

■ **Line 41. Gross Receipts From All Activities –** Enter the sum of each member's gross receipts reported on Form 4M, line W. See the Form 4M instructions for details.

■ **Line 42. Total Assets –** Enter the sum of each member's total assets reported on Form 4M, line X. See the Form 4M instructions for details.

■ **Line 43. Wisconsin Tangible Property –** Enter the sum of each member's Wisconsin property reported on Form 4M, line Y1. See the Form 4M instructions for details.

■ **Line 44. Total Company Property –** Enter the total amount of the combined group's real and personal property everywhere. Use the cost basis of the property as of the end of the year. Include the following types of property:

- Land
- Buildings
- Furniture and Fixtures
- Transportation equipment
- Machinery and other equipment
- Inventories

Include only property that is owned by members of the group; you do not need to include property that is being rented.

■ **Line 45. Wisconsin Payroll –** Enter the sum of each member's Wisconsin payroll reported on Form 4M, line Y2. See the Form 4M instructions for details.

■ **Line 46. Total Company Payroll –** Enter the total amount of the combined group's payroll everywhere. Include only amounts attributable to employees of the corporation.

■ **Line 47. Wisconsin Sales –** Enter the sum of the combined group members' apportionment factor numerators from Form 4A, Part II, column b. If the combined group does not use apportionment, you may ignore this line.

■ **Line 48. Total Company Sales –** Enter the combined group's common apportionment factor denominator from Form 4A, Part I, line 8a. If the combined group doesn't use apportionment, you may ignore this line.

■ **Lines 49 and 50. Limited Liability Companies –** A single-member LLC that is disregarded for federal income tax purposes is also disregarded for Wisconsin franchise or income tax purposes. You must include the income of any disregarded entities owned by a member of the combined group in the combined return as if the member itself earned the income. Include with your return a list of solely-owned LLCs owned by members of the group.

■ **Line 51. Use Tax –** A corporation may be liable for use tax. Use tax is the counterpart of sales tax. All tangible personal property, certain coins and stamps, certain leased properties affixed to real estate, certain digital goods and selected services, taxable under Wisconsin's sales tax law, which are stored, used, or consumed in Wisconsin, are subject to use tax if the proper sales tax is not paid. Examples of purchases that frequently result in a use tax liability include the following:

- Mail order and Internet purchases. You owe Wisconsin use tax if you buy such items as computers, furniture, or office supplies from a vendor who is not registered to collect Wisconsin tax.
- Inventory. If you purchase inventory items without tax for resale, and then use these items instead of selling them, you owe use tax.
- Give-aways. Generally, if you purchase items without tax and then give them away in Wisconsin, you owe use tax.

If you hold a seller's permit, use tax certificate, or consumer's use tax certificate, report your use tax on your sales and use tax return, Form ST-12. Otherwise, complete and file Form UT-5 to report use tax.

For more information on use tax, visit the Department's web site at revenue.wi.gov/html/sales.html, call (608) 266-2776, e-mail DORSalesandUse@revenue.wi.gov, or write to the Wisconsin Department of Revenue, Mail Stop 5-77, PO Box 8949, Madison, WI 53708-8949.

■ **Lines 52 through 55. Contact Information and Miscellaneous –** Provide the information as instructed on the form.

■ **Line 56.** ***Uncertain Tax Positions.*** If you were required to file federal Schedule UTP-Uncertain Tax Position Statement, include a copy of the schedule with your Wisconsin tax return.

■ **Line 57.** ***Reportable Transaction Disclosure Statement.*** If you were required to file federal Form 8886-Reportable Transaction Disclosure Statement, include a copy of the form with your Wisconsin tax return.

■ **Signatures –** An officer of the designated agent corporation must sign at the bottom of page 3. If the return is prepared by someone other than an employee of the corporation, the individual who prepared the return must sign the form in the space provided for the preparer's signature and furnish the preparing firm's federal employer identification number. A self-employed individual must enter "SSN" or "PTIN" and the social security number or preparer tax identification number in the space for the preparer's federal employer identification number.

Required Attachments

File the following items as attachments to the combined Form 4:

- Form 4R
- Form 4M for each member of the group. If the required number of Form 4Ms are not included with the tax return, the return will be sent back.
- A copy of the complete federal return of each member of the group (see *Methods of Providing Federal Return,* presented next, for alternative ways you can meet this requirement)
- If you are filing a federal consolidated return, a copy of federal Form 851, *Affiliations Schedule*, as submitted to the IRS
- A list of the solely-owned LLCs of each member of the group
- Any extension of time to file the return
- Other Department-prescribed supplemental schedules as described in these instructions, including any attachments or additional schedules required per the instructions

Methods of Providing Federal Return. For combined group members that also file in a federal consolidated return, there are three alternative ways a combined group can meet the requirement to provide the complete federal return of each member of the group. The alternatives are:

1. A copy of the federal consolidated return, including all supporting forms, schedules, and statements, as submitted to the IRS
2. Pro forma federal returns prepared separately for each member of the combined group included in the federal

consolidated return, including all supporting forms and schedules prepared separately for each member

3. A spreadsheet showing the line-by-line computation of taxable income of each member of the combined group included in the federal consolidated return, plus the supporting forms, schedules, and statements filed with the IRS pertaining to each member, including balance sheets, a reconciliation of income per books with income per return, and a reconciliation of retained earnings, to the extent the member was required to submit these items to the IRS.

NOTE: You may submit supplemental schedules that are not pre-programmed into your electronic filing software in one of two ways:

1. Submitting them electronically in .pdf format along with your electronic return, or
2. Mailing them to the Department with a Form W-*RA, Required Attachments for Electronic Filing*.

Additional Information, Assistance, and Forms

Web Resources

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

- A home page specifically for combined reporting topics (revenue.wi.gov/combrept/index.html)
- Related forms and their instructions
- Common questions on specific tax topics
- Publications on specific tax topics
- The *Wisconsin Tax Bulletin* quarterly publication, which provides information about law changes and other current issues
- Articles addressing administrative issues. 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 on the Department'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
- Call or visit any Department of Revenue office

Obtaining Forms

If you need forms or publications, you may:

- Download them from the Department's web site at revenue.wi.gov
- Request them online at revenue.wi.gov
- Call (608) 266-1961
- Call or visit any Department of Revenue office