Instructions for 2013 Schedule W:
Wisconsin Subtractions from Federal Income

Purpose of Schedule W

Corporations and combined groups complete Schedule W to report subtraction modifications that are needed to account for differences between taxable income under Wisconsin law and under federal law. The corporation or combined group files Schedule W with its Wisconsin Form 4 or Form 5.

Special Instructions for Combined Groups

For combined groups, you do not need to file more than one Schedule W. Instead, you may aggregate all combined group members' subtractions from federal income on one Schedule W and submit a supplemental schedule showing the amount of each subtraction modification attributable to each member.

> **CAUTION:** When completing Schedule W for a combined group, make sure that the amounts you are subtracting were included in the amount on Form 4, line 1 to begin with. Do not make subtraction modifications for corporations that are in the federal consolidated return but that aren't members of the combined group.

Line-by-Line Instructions

■ **Line 1. Wisconsin Subtraction Modification for Dividends –** Enter the total from line 4 of Schedule Y. See the Schedule Y instructions for an explanation of dividends that are eligible for the subtraction.

■ **Line 2. Related Entity Expenses –** If the corporation or combined group made an addition modification for related entity expenses on Schedule V, line 3, this is where you report the amount that qualifies for a deduction. Enter the amount of the expenses from Schedule V, line 3, that are deductible using the criteria described in *Conditions for Deducting Related Entity Expenses*, below.

For corporations that are partners, members, or beneficiaries of pass-through entities, also include the amount of allowable related entity expense reported on line 21b of Schedule 3K-1 and on line 14b of Schedule 2K-1, as applicable.

Conditions for Deducting Related Entity Expenses. Section 71.80(23)(a)3., Wis. Stats., provides that a related entity expense that was added back on Schedule V, line 3, qualifies for a deduction if all of the following conditions are met:

- The primary motivation for the transaction was one or more business purposes other than the avoidance or reduction of state income or franchise taxes;
- The transaction changed the economic position of the taxpayer in a meaningful way apart from tax effects; and
- The expenses were paid, accrued, or incurred using terms that reflect an arm's length relationship.

Factors that may indicate that the expense does not qualify for a deduction include the following:

- There was no actual transfer of funds from the taxpayer to the related entity, or the funds were substantially returned to the taxpayer, either directly or indirectly.
- If the transaction was entered on the advice of a tax advisor, the advisor's fee was determined by reference to the tax savings.
- The related entity does not regularly engage in similar transactions with unrelated parties on terms substantially similar to those of the subject transaction.
- The transaction was not entered into at terms comparable to arm's length as determined by Treas. Reg. 1.482-1(b).
- There was no realistic expectation of profit from the transaction apart from the tax benefits.
- The transaction resulted in improper matching of income and expenses.
- An expense for the transaction was accrued under FIN 48.

The statutes (sec. 71.80(23)(a)1. and 2., Wis. Stats.) provide some additional conditions under which a related entity expense may qualify for a deduction, subject to some important exceptions. Those conditions are:

- If the expense was paid to a related entity that is merely acting as a conduit between the taxpayer and an unrelated entity, or
- If the related entity was subject to a tax measured by net income or receipts and the net in-

come or receipts of the transaction were included in its tax base.

More Information on Related Entity Expenses. For more information on the deductibility of related entity expenses, see the Schedule RT instructions. Even if you weren't required to file Schedule RT for the expenses you added back on Schedule V, the instructions to Schedule RT provide helpful information regarding deductibility of related entity expenses.

■ **Line 3. Income from Related Entities Whose Expenses Were Disallowed –** If the corporation, or any corporation in the combined group, has income from a related entity which paid, accrued, or incurred expenses to the corporation, and that related entity could not deduct those expenses according to the instructions for line 2, the corporation may subtract the corresponding income from its taxable income.

In order to claim a subtraction on line 3, the corporation must obtain Schedule RT-1 from the related entity and submit Schedule RT-1 with Schedule W. See the Schedule RT-1 instructions for further details.

■ **Line 4. Subpart F Income –** Enter income from controlled foreign corporations under Subpart F of the Internal Revenue Code as reported on Form 1120, Schedule C, line 14. For combined groups, enter the amount of Subpart F income that is included in the amount on Form 4, line 1. This may be the sum of the amounts from Form 1120, Schedule C, line 14 for more than one company.

■ **Line 5. Foreign Dividend Gross-Up –** Enter foreign dividend gross-up reported on Form 1120, Schedule C, line 15. For combined groups, enter the amount of foreign dividend gross-up income that is included in the amount on Form 4, line 1. This may be the sum of the amounts from Form 1120, Schedule C, line 15 for more than one company.

■ **Line 6. Nontaxable Income –** Enter nontaxable income included in computing federal taxable income. Include a schedule with your return showing the payers and amounts of nontaxable income and explaining why that income isn't taxable.

Interest, dividends, and capital gains from the disposition of intangible assets are nontaxable if both of the following are true:

- The operations of the payer are not unitary with those of the payee, and
- The payer and payee are not related as parent company and subsidiary or affiliates and the investment activity from which the income is received is not an integral part of a unitary business.

Income may also 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.

For corporations subject to the Wisconsin income tax rather than the franchise tax, nontaxable income also includes interest on United States government obligations.

CAUTION: Expenses related to nontaxable income aren't deductible and must be added to federal taxable income on Schedule V, line 5.

■ **Line 7. Foreign Taxes –** Enter foreign taxes paid or accrued during the year that aren't deducted in computing federal taxable income and aren't included on Schedule W, line 5.

■ **Line 8. Cost Depletion –** Enter cost depletion that wasn't deducted in computing federal taxable income.

CAUTION: Percentage depletion isn't deductible for Wisconsin and must be added to federal taxable income on Schedule V, line 6.

■ **Line 9. Depreciation/Amortization –** Enter the amount by which the Wisconsin deduction for depreciation or amortization exceeds the federal deduction for depreciation or amortization. Provide a schedule showing the computation details. For further information about the differences between federal and Wisconsin basis and depreciation, see the section titled *Conformity with Internal Revenue Code and Exceptions* in the Form 4 or Form 5 instructions, as applicable.

■ **Line 10. Basis Differences –** Enter the amount by which the Wisconsin basis of assets disposed of exceeds the federal basis. See the instructions for Schedule V, line 9, for an example. Provide a schedule showing the computation details.

■ **Line 11. Federal Work Opportunity Credit Wages –** Enter wages that aren't deductible in computing federal income because they are being used in computing the federal work opportunity tax credit.

■ **Line 12. Federal Research Credit Expenses –** Enter research expenses that aren't deductible in computing federal income because they are being used in computing the federal credit for increasing research activities.

■ **Line 13. Other Subtractions –** Enter any other subtractions from federal income, except for the insurance company adjustment reportable on line 14. These other subtractions may include:

- Adjustments required as a result of changes made to the Internal Revenue Code which don't apply for Wisconsin.
- Adjustments required as a result of making different elections for Wisconsin and federal purposes.
- Separately stated items of expense and adjustments for differences between the federal and Wisconsin treatment of any items of an S corporation that opts out of Wisconsin tax-option status.
- For credit unions, an adjustment to remove income from non-public deposits from Wisconsin income as described in the instructions to Schedule CU-1.

■ **Line 14. Nontaxable Income from Life Insurance Operations –** If the corporation, or any corporation in the combined group, is an insurance company that has both life insurance operations and non-life insurance operations, enter the amount of nontaxable income from life insurance operations as computed on Schedule 4I, line 13. See the Schedule 4I instructions for details.

■ **Line 15. Job Creation Deduction -** Enter the job creation deduction from line 7 of Schedule JC. The job creation deduction for combined return filers is determined by each member of the combined group separately. Each member of the combined group that is eligible to claim the job creation deduction should complete a Schedule JC and the designated agent filing Form 4 will enter the total from line 7 of all members' Schedules JC on line 15 of Schedule W.

Enter the number of members in the combined group claiming the job creation deduction on the line below and to the left of line 15. For more information regarding the job creation deduction, refer to Schedule JC.

Additional Information and Assistance

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

- Common questions
- Training materials
- Links to Administrative Code sections that relate to combined reporting
- Articles on combined reporting

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

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

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

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