Instructions for 2010 Schedule V: Wisconsin Additions to Federal Income

Purpose of Schedule V

Corporations and combined groups complete Schedule V to report addition 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 V 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 V. Instead, you may aggregate all combined group members' additions to federal income on one Schedule V and submit a supplemental schedule showing the amount of each addition modification attributable to each member.

CAUTION: When completing Schedule V for a combined group, make sure that the amounts you are adding are attributable to corporations that are members of the group. Do not make addition modifications for corporations that are in the federal consolidated return but aren't members of the combined group.

Line-by-Line Instructions

■ **Line 1. Interest Income –** Enter interest income received on state and municipal obligations and any other interest income that is exempt from federal income tax and isn't included in federal taxable income.

Corporations subject to the Wisconsin income tax rather than the franchise tax shouldn't enter interest income on line 1 that is exempt from income tax under both Wisconsin and federal law. This includes interest on the following types of obligations:

- Public housing authority or community development authority bonds issued by municipalities located in Wisconsin
- Wisconsin Housing Finance Authority bonds
- Wisconsin municipal redevelopment authority bonds
- Wisconsin higher education bonds
- Wisconsin Housing and Economic Development Authority bonds issued on or after December 11, 2003, to fund multifamily affordable housing or elderly housing projects
- Wisconsin Housing and Economic Development Authority bonds issued before January 29, 1987, except business development revenue bonds, economic development revenue bonds, and CHAP housing revenue bonds
- Public housing agency bonds issued before January 29, 1987, by agencies located outside Wisconsin where the interest therefrom qualifies for exemption from federal taxation for a reason other than or in addition to section 103 of the IRC
- Local exposition district bonds
- Wisconsin professional baseball park district bonds
- Bonds issued by the Government of Puerto Rico, Guam, the Virgin Islands or, for bonds issued after October 16, 2004, the Government of American Samoa
- Local cultural arts district bonds
- Wisconsin professional football stadium bonds
- Wisconsin Aerospace Authority bonds
- Bonds issued on or after October 27, 2007, by the Wisconsin Health and Education Facilities Authority to fund acquisition of information technology hardware or software
- Southeast Regional Transit Authority bonds
- Conduit revenue bonds issued under sec. 66.0304, Wis. Stats., if the bonds or notes are used to fund multifamily affordable housing projects or elderly housing projects in Wisconsin and the Wisconsin Health and Education Facilities Authority has the authority to issue the bonds. The bonds or notes are used by a health facility to fund the acquisition of information technology hardware or software in Wisconsin and the Wisconsin Health and Educational Facilities Authority has the authority to issue the bonds. Bonds or notes issued to fund a redevelopment project or housing project in Wisconsin.

■ **Line 2. State Taxes –** Enter taxes imposed by Wisconsin, any other state, and the District of Columbia that are value-added taxes, single business taxes, or taxes on or measured by net income, gross income, gross receipts, or capital stock and that were deducted in computing federal taxable income.

NOTE: The state taxes you add back on line 2 should include all components of the Michigan Business Tax and the Texas Margins Tax regardless of which computation is used. However, the Ohio Commercial Activity Tax is not required to be added back since it is deductible.

■ **Line 3. Related Entity Expenses –** A corporation must make an addition modification to “add back” expenses attributable to transactions with related parties. The expenses that must be added back include the following, if paid, accrued, or incurred to a related entity:

- Interest expenses
- Rent expenses
- Management fees
- Intangible expenses

However, if the corporation is a combined group member and pays, accrues, or incurs one of these types of expenses to another member of the same combined group, you do not need to add those expenses back if the net effect of the transaction on combined unitary income was zero (in other words, if the payer’s expense and the corresponding income of the member to which the expense was paid are both included in combined unitary income so that they cancel each other out).

Corporations that are partners, members, or beneficiaries of pass-through entities must include on line 3 their share of the pass through entity’s related entity expenses shown on line 21a of Schedule 3K-1 and line 14a of Schedule 2K-1, as applicable.

NOTE: If the corporation meets one of the specific conditions provided in the Wisconsin Statutes, the corporation may take a subtraction modification on Schedule W for some or all of the amount added back on Schedule V, line 3. See the instructions for Schedule W, line 2 for details.

Definitions Applicable to Line 3. In determining whether an addback of related entity expenses is necessary, the following definitions apply:

“Related entity” – A related person under one of the following sections of the Internal Revenue Code (IRC):

- Section 267(b), which defines relationships through which taxpayers would be considered “related” for purposes of the disallowance of deduction or loss on transactions between related taxpayers
- Section 1563, relating to controlled groups of corporations, which is incorporated into section 267 by reference
- Section 707(b), relating to partners of partnerships, which is also incorporated into section 267 by reference

A "related entity" also includes certain real estate investment trusts (REITs) if they are not "qualified REITs." For more on qualified REITs, see *Wisconsin Tax Bulletin* #158, page 17, Questions A2 and A3.

“Interest expenses” – Interest that would otherwise be deductible under section 163 of the IRC and otherwise deductible in the computation of Wisconsin income.

“Rent expenses” – Gross amounts that would otherwise be deductible under the IRC, as modified for Wisconsin purposes, for the use of, or the right to use, real property and tangible personal property in connection with real property, including services rendered in connection with such property, regardless of how reported for financial accounting purposes and regardless of how computed.

“Management fees” – Expenses and costs, not including interest expenses, pertaining to accounts receivable, accounts payable, employee benefit plans, insurance, legal matters, payroll, data processing, purchasing, taxation, financial matters, securities, accounting, or reporting on compliance matters or similar activities, to the extent that the amounts would otherwise be deductible in determining net income under the IRC as modified for Wisconsin purposes.

“Intangible expenses” – Any of the following, to the extent the amounts would otherwise be deductible in determining net income under the IRC as modified for Wisconsin purposes:

- Expenses, losses, or costs for, related to, or directly or indirectly in connection with, the acquisition, use, maintenance, management, ownership, sale, exchange, or any other disposition of intangible property
- Losses related to, or incurred in connection directly or indirectly with, factoring transactions or discounting transactions
- Royalty, patent, technical, and copyright fees
- Licensing fees

If a corporation purchases an amortizable intangible asset from a related entity, the amortization expenses on that asset are considered intangible expenses and should be added back.

Schedule RT Filing Requirement for Amount on Line 3. If the amount a corporation reports on line 3 of Schedule V exceeds $100,000, the corporation must file Schedule RT, *Wisconsin Related Entity Expenses Disclosure Statement*, with its return. However, for corporations and combined groups using apportionment, you may multiply the amount on line 3 by the apportionment percentage (Form 4, line 8) for purposes of determining whether you meet the $100,000 threshold for filing Schedule RT.

CAUTION: Don't forget to file Schedule RT if the amount on line 3, multiplied by the amount on Form 4, line 8, is greater than $100,000.

■ **Line 4. Domestic Production Activities Deduction –** Enter the amount of domestic production activities deduction (also called "section 199 deduction") included in federal taxable income. For taxable years beginning on or after January 1, 2009, Wisconsin does not allow the federal domestic production activities deduction.

■ **Line 5. Expenses Related to Nontaxable Income –** Enter expenses included in federal taxable income that are directly or indirectly related to nontaxable income. Refer to the specific instructions for Schedule W, line 6, for an explanation of "nontaxable income." Examples of expenses related to nontaxable income include taxes, interest, and administrative fees related to the production of nontaxable income.

Also enter on this line any losses included in federal taxable income from disposing of assets, if gains from disposing those assets would have been nontaxable income if the assets were disposed of at a gain.

■ **Line 6. Percentage Depletion –** Enter percentage depletion deducted in computing federal taxable income. Percentage depletion is not allowed for Wisconsin purposes. However, cost depletion is allowed. See the instructions for Schedule W, line 8.

■ **Line 7. Section 179 Expense –** Enter the amount by which the federal section 179 expense deduction exceeds the Wisconsin deduction. For Wisconsin purposes, the section 179 expense is limited to $25,000 and phases out at $200,000 of qualifying property.

In the case of a combined group, 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) of the IRC.

NOTE: For a combined group, apply the section 179 expense limitation to the entire group as if it is a single corporation.

For further information about the differences between the limitations for federal and Wisconsin purposes, see the section titled *Conformity with Internal Revenue Code and Exceptions* in the Form 4 or Form 5 instructions, as applicable.

■ **Line 8. Depreciation/Amortization –** Enter the amount by which the federal deduction for depreciation or amortization exceeds the Wisconsin deduction. Include a schedule showing the computation details.

These differences can happen because of IRC sections not adopted for Wisconsin purposes and also because of differences that existed between Wisconsin and federal law for assets placed in service before January 1, 1987.

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.

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 9. Basis Differences for Assets Disposed –** Enter the amount by which the federal basis of assets disposed of exceeds the Wisconsin basis. If more than one asset is disposed of, you may combine the bases of the assets so that you need only one entry on either this line or Schedule W, line 10. Provide a schedule showing the computation details.

For example, assume a corporation sold the following assets during the current taxable year:

	Federal Basis	Wisconsin Basis	Difference
Equipment	$1,500	$500	$1,000
Machinery	1,000	2,000	(1,000)
Building	20,000	10,000	10,000
Totals	$22,500	$12,500	$10,000

The amount to enter on Schedule V, line 9, would be $10,000. If the Wisconsin bases of the assets had exceeded the federal bases, an entry would be made on Schedule W, line 10, instead.

The modification on line 9 may also apply in cases where a parent corporation disposes of subsidiary stock for which the basis is determined under Treas. Reg. §1.1502-32. See s. Tax 2.61(6)(f), Wisconsin Administrative Code, for details.

■ **Line 10. Addition for Credits Computed –** Enter the total amount of credits from the list provided that you computed on your 2010 return. In the case of a combined group, enter the total amount of these credits computed by all combined group members on the 2010 combined return. If you have a credit that is not on the list provided for line 10, do not include that credit in the amount on line 10.

■ **Line 11. Special Additions for Insurance Companies –** If the corporation is an insurance company, or in the case of a combined group, if any member of the combined group is an insurance company, you must complete Schedule 4I to account for addition modifications that are unique to insurance companies. Enter the total from Schedule 4I, line 4 on Schedule V, line 11.

■ **Line 12. Other Additions –** Enter any other additions to federal income. These could include:

- Federal capital loss carryovers (if previously deducted for Wisconsin).
- 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 income 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.

Additional Information and Assistance

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

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

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

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

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

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