2011

Wisconsin
Corporation Franchise and Income Tax
Form 4 Packet

This packet contains the following items in the order presented below:

- **Form 4**, *Wisconsin Corporation Franchise or Income Tax Return*
- **Supplemental Schedules to Form 4:**
  - Form 4R, *Federal Taxable Income Reconciliation for Wisconsin Combined Groups*
  - Schedule V, *Wisconsin Additions to Federal Income*
  - Schedule W, *Wisconsin Subtractions from Federal Income*
  - Schedule Y, *Wisconsin Subtraction Modification for Dividends*
  - Form 4A, *Wisconsin Apportionment Data for Combined Groups*
  - Form 4A-1, *Wisconsin Apportionment Data for Single Factor Formulas*
  - Form 4M, *Wisconsin Combined Group Member-Level Data*
  - Form 4U, *Underpayment of Estimated Tax by Corporations*
- **Form 4 Instructions for Separate Returns**
- **Form 4 Instructions for Combined Returns**
- **Instructions for each of the Supplemental Schedules** (arranged alphabetically)

From the items in this packet:

Separate Return filers may need:

- Form 4
- Schedule V
- Schedule W
- Schedule Y
- Form 4A-1
- Form 4U

Combined Return filers may need:

- Form 4
- Form 4R
- Schedule V
- Schedule W
- Schedule Y
- Form 4A
- Form 4A-1
- Form 4M
- Form 4U

Need a form that isn't in this packet? Find it on the Department's web site at:

www.revenue.wi.gov

IC-401

Form **4** ***Wisconsin Corporation Franchise or Income Tax Return***

2011

For 2011 or taxable year beginning __ __ __ __ __ __ __ __ (M M D D C C Y Y) and ending __ __ __ __ __ __ __ __ (M M D D C C Y Y)

Complete form using BLACK INK. **Due Date:** 15th day of 3rd month following close of taxable year.

DO NOT STAPLE OR BIND

Corporation or Designated Agent Name

Number and Street | Suite Number

City | State | ZIP (+ 4 digit suffix if known) | **A** Federal Employer ID Number

B Business Activity (NAICS) Code

C State of Incorporation and Year

Enter abbreviation of state in box, or if a foreign country, enter below.

C C Y Y

D Check ✓ if applicable and attach explanation:

1 ___ Amended return

2 ___ First return - new corporation or entering Wisconsin

3 ___ Final return - corporation dissolved or withdrew

4 ___ Short period - change in accounting period

5 ___ Short period - stock purchase or sale

Check ✓ if applicable and see instructions:

E ___ If this is a combined return. Enter number of companies included ► ____________

F ___ If you have an extension of time to file. Enter extended due date __ __ __ __ __ __ __ __ (M M D D C C Y Y)

G ___ If no business was transacted in Wisconsin during the taxable year. Attach a complete copy of your federal return.

H ___ If you have related entity expenses and are required to file Schedule RT with this return.

I ___ If this return is for an insurance company (check only if this is not a combined return).

J ___ If you filed a federal consolidated return. Enter Parent Company's federal employer ID number ► ______________________ (Attach statement - see instructions).

IF NO ENTRY ON A LINE, LEAVE BLANK

ENTER NEGATIVE NUMBERS LIKE THIS → –1000 NOT LIKE THIS → (1000) NO COMMAS; NO CENTS

PAPER CLIP check or money order here

1	If this is a combined return, enter the amount from Form 4R, line 26. If this is not a combined return, enter the amount from Form 1120, line 28.	1	.00
2	Additions (from Schedule V, line 13)	2	.00
3	Add lines 1 and 2	3	.00
4	Subtractions (from Schedule W, line 16)	4	.00
5	Subtract line 4 from line 3	5	.00
6	Total company net nonapportionable and separately apportioned income (from Form(s) 4N, line 8)	6	.00
7	Subtract line 6 from line 5. *Combined groups: This is your combined unitary income*	7	.00
8	Wisconsin apportionment percentage. Combined group filers enter percentage from Form 4A, line 8c, except 100% Wisconsin groups enter "100.0000%." Separate entity filers enter the apportionment percentage from Form 4A-1 or Form 4A-2. If the percentage is from Form 4A-2, check (✓) the space after the arrow ► ___	8	___ . ____ %
9	Multiply line 7 by line 8	9	.00
10	Wisconsin net nonapportionable and separately apportioned income (from Form(s) 4N, line 14)	10	.00
11	Add lines 9 and 10	11	.00
12	*Combined returns only:* Net capital loss adjustment (from Form(s) 4M, line N)	12	.00
13	Subtract line 12 from line 11	13	.00
14	Loss adjustment for insurance companies (from Schedule(s) 4I, line 24)	14	.00
15	Add lines 13 and 14. This is the Wisconsin income before net business loss carryforwards	15	.00

16	Enter amount from line 15		16	.00
17	Wisconsin net business loss carryforward (from Form(s) 4M, line P for combined group filers; Form 4BL, Part I, line 30 for separate entity filers). Do not enter more than line 16		17	.00
18	Subtract line 17 from line 16. This is Wisconsin net income or loss		18	.00
19	Enter 7.9% (0.079) of Wisconsin net income on line 18. This is tentative gross tax		19	.00
20	Tax adjustment for insurance companies (from Schedule(s) 4I, line 30)		20	.00
21	Gross tax (from Forms 4M, line Q for combined group filers; separate entity filers subtract line 20 from line 19)		21	.00
22	Nonrefundable credits (from Form(s) 4M, line R for combined group filers; Schedule CR, line 48 for separate entity filers)		22	.00
23	Relocated business credit. If qualified, see instructions. If not qualified, enter 0. Check here if claimed		23	.00
24	Subtract lines 22 and 23 from line 21. If the total of lines 22 and 23 is more than line 21, enter zero (0). This is net tax		24	.00
25	Economic development surcharge (see instructions)		25	.00
26	Endangered resources donation (decreases refund or increases amount owed)		26	.00
27	Veterans trust fund donation (decreases refund or increases amount owed) VETS		27	.00
28	Add lines 24 through 27		28	.00
29	Estimated tax payments less refund from Form 4466W	29 .00		
30	Wisconsin tax withheld (see instructions)	30 .00		
31	Refundable credits (from Form(s) 4M, line V for combined group filers; Schedule CR, line 51 for separate entity filers)	31 .00		
32	Amended Return Only – amount previously paid	32 .00		
33	Add lines 29 through 32	33 .00		
34	Amended Return Only – amount previously refunded	34 .00		
35	Subtract line 34 from 33		35	.00
36	Interest, penalty, and late fee due (from Form 4U, line 17 or 26) If you annualized income of Form 4U, check (✓) the space after the arrow		36	.00
37	**Tax Due.** If the total of lines 28 and 36 is larger than 35, subtract line 35 from the total of lines 28 and 36		37	.00
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		38	.00
39	Enter amount from line 38 you want credited on 2012 estimated tax	39 .00		
40	Subtract line 39 from line 38. **This is your refund**		40	.00

41	Enter total gross receipts from all activities (see instructions)	41	.00
42	Enter total assets from federal Form 1120	42	.00
43	Total Wisconsin tangible property (see instructions)	43	.00
44	Total tangible property (see instructions)	44	.00
45	Total Wisconsin payroll (see instructions)	45	.00
46	Total payroll (see instructions)	46	.00
47	Total Wisconsin sales, receipts, or premiums included in apportionment ratio (see instructions)	47	.00
48	Total sales, receipts, or premiums included in apportionment ratio (see instructions)	48	.00

49 Is the corporation (or any member of the combined group) the sole owner of any limited liability companies?
___ Yes ___ No If yes, prepare and submit a list of those LLCs with this return. If this is a combined return, also identify the corporation that is the sole owner of each LLC.

50 Did you include the income of the LLCs listed for item 49 in this return?
___ Yes ___ No

51 Did you (or did any member of the combined group) purchase, license, lease or rent any taxable tangible personal property, certain coins and stamps, certain leased property affixed to real estate, certain digital goods, or taxable services, for storage, use or consumption in Wisconsin without paying a state sales or use tax?
___ Yes ___ No

52 Did any adjustments made by the Internal Revenue Service to your income (or to the income of any member of the combined group) become finalized during this year?
___ Yes ___ No If yes, see instructions.

53 Person to contact concerning this return: ______________________

Phone #: ______________ Fax #: ______________

54 City and state where books and records are located for audit purposes: ______________________

55 List the locations of Wisconsin operations: ______________________

56 Are any manufacturing facilities located in Wisconsin?
___ Yes ___ No

57 Did you file federal Schedule UTP – Uncertain Tax Position statement with the Internal Revenue Service?
___ Yes ___ No If yes, enclose federal Schedule UTP with your Wisconsin tax return.

Under penalties of law, I declare that this return and all attachments are true, correct, and complete to the best of my knowledge and belief.

Signature of Officer	Title	Date
Preparer's Signature	Preparer's Federal Employer ID Number	Date

You must file a copy of your federal return with Form 4, even if no Wisconsin activity.

If this is a combined return, see the instructions for a description of federal return information that must be filed with Form 4.

If you are not filing your return electronically, make your check payable to and mail your return to:

Wisconsin Department of Revenue
PO Box 8908
Madison WI 53708-8908

Form **4R**

Wisconsin Department of Revenue

Federal Taxable Income Reconciliation for Wisconsin Combined Groups

File with Wisconsin Form 4

Read instructions before filling in this form

2011

Designated Agent Name	Federal Employer ID Number

ENTER NEGATIVE NUMBERS LIKE THIS → –1000 **NOT LIKE THIS → (1000)** **NO COMMAS; NO CENTS**

Part I General Information and Consolidated Returns

1 Check (✓) the space after the arrow to make the controlled group election for the first year the election is made. **Do not** check the space every year the election is in effect . . . ▶ ____

2 Are there any corporations in the commonly controlled group that are not included in either this combined return or any federal consolidated return? . . . . ____ Yes ____ No

3 If the answer to item 2 is yes, submit a supporting schedule which identifies each corporation described in item 2 and complete lines 4 and 5.

4 Total federal net income of companies described in line 2 . . . . **4** ________ .00

5 Total gross sales corresponding to amount on line 4 . . . . **5** ________ .00

6 If any members of the combined group filed a federal consolidated return for the taxable year, enter the parent company's name, federal employer identification number (FEIN), and amount on line 28 of the consolidated federal Form 1120. If there are more than three federal consolidated returns, see instructions. If no members of the group filed a federal consolidated return, skip to line 7.

Parent Company Name	FEIN		Form 1120, line 28
________ ▶	________	**6a**	.00
________ ▶	________	**6b**	.00
________ ▶	________	**6c**	.00
Add lines 6a through 6c		**6d**	.00

Part II Corporations in Combined Group Which Are Not in Federal Consolidated Return

For amounts entered on lines 7 through 9, use a separate schedule to identify each combined group member, its FEIN, and amount included on that line.

7 Federal taxable incomes of commonly controlled corporations with less than 80% common ownership (do not include foreign corporations) . . . . **7** ________ .00

8 Federal taxable incomes of foreign corporations not included in consolidated return but includable in combined group. . . . . **8** ________ .00

9 Federal taxable incomes of other combined group members not included in federal consolidated return (explain on an attached statement) . . . . **9** ________ .00

10 Add lines 6d through 9 . . . .**10** ________ .00

Part III Subtotal

11	Enter amount from line 10	11	.00
12	Net capital gains included on line 11	12	.00
13	Subtract line 12 from line 11 (net capital gains will be recomputed on line 23)	13	.00
14	Sum of charitable contributions deduction, net section 1231 losses, and losses from involuntary conversions included on line 11 (enter as a positive amount)	14	.00
15	Add lines 13 and 14 (the deduction on line 14 will be recomputed on line 24)	15	.00

Part IV Corporations in Federal Consolidated Return Which Are Not Combined Group Members

For amounts entered on lines 16, 18, and 19, use a separate schedule to identify each corporation, its FEIN, and amount included on that line. Enter the federal separate taxable incomes before net capital gains and charitable contribution deductions.

16	Federal separate taxable incomes of corporations in the consolidated return that are not engaged in the combined group's unitary business	16	.00
17	Were any corporations included on line 16 included in a combined return for the unitary business in another state for the taxable year where the inclusion was not by election? (If yes, explain on an attached statement.)	17	☐ Yes ☐ No
18	Federal separate taxable incomes of corporations in the consolidated return that are not combined group members due to the water's edge rules (do not include corporations already included on line 16)	18	.00
19	Federal separate taxable incomes of other corporations in the consolidated return that are not combined group members (explain on an attached statement)	19	.00
20	Add lines 16, 18, and 19	20	.00
21	Subtract line 20 from line 15	21	.00

Part V Adjustments Based on Limitations in Federal Law

See instructions for how to compute lines 22 through 24 and supporting detail required.

22	Adjustment to defer or recognize intercompany income, expense, gain, or loss between combined group members	22	.00
23	Recomputed net capital gain, applying capital loss limitation at combined group level	23	.00
24	Sum of recomputed charitable contributions deduction, net section 1231 losses, and losses from involuntary conversions, applying limitations at combined group level (enter as a negative amount)	24	.00
25	Other adjustments based on federal law (explain on an attached statement)	25	.00
26	Add lines 21 through 25. Enter this amount on Form 4, line 1	26	.00

Schedule **V**

Wisconsin Department of Revenue

Wisconsin Additions to Federal Income

File with Wisconsin Form 4 or 5

Read instructions before filling in this schedule

2011

Corporation or Designated Agent Name	Federal Employer ID Number

1	Interest income from state and municipal obligations	1	.00
2	State taxes accrued or paid	2	.00
3	Related entity expenses (from Schedule RT, Part I, Sch. 2K-1, and Sch. 3K-1)	3	.00
4	Domestic production activities deduction	4	.00
5	Expenses related to nontaxable income	5	.00
6	Percentage depletion	6	.00
7	Federal section 179 expense deduction in excess of Wisconsin deduction	7	.00
8	Federal depreciation/amortization in excess of Wisconsin depreciation/amortization *(attach schedule)*	8	.00
9	Amount by which the federal basis of assets disposed of exceeds the Wisconsin basis *(attach schedule)*	9	.00
10	Total additions for certain credits computed (see instructions)	10	.00
11	Special additions for insurance companies (from Schedule 4I, line 4)	11	.00
12	Other (list):		

a		.00
b		.00
c		.00
d		.00
e		.00
f		.00
g		.00
h		.00

	Add lines 12a through 12h	12	.00
13	Total (enter on Form 4 or 5, page 1, line 2)	13	.00

Schedule **W**

Wisconsin Department of Revenue

Wisconsin Subtractions From Federal Income

File with Wisconsin Form 4 or 5

Read instructions before filling in this schedule

2011

Corporation or Designated Agent Name	Federal Employer ID Number

1	Wisconsin subtraction modification for dividends (from Sch. Y, line 4)	1	.00
2	Related entity expenses eligible for subtraction (from Schedule RT, Part II, Sch. 2K-1, and Sch. 3K-1)	2	.00
3	Income from related entities whose expenses were disallowed (obtain Schedule RT-1 from related entity and submit with your return)	3	.00
4	Subpart F income	4	.00
5	Gross-up of foreign dividend income	5	.00
6	Nontaxable income *(attach schedule)*	6	.00
7	Foreign taxes (do not include deemed taxes)	7	.00
8	Cost depletion	8	.00
9	Wisconsin depreciation/amortization in excess of federal depreciation/amortization *(attach schedule)*	9	.00
10	Amount by which the Wisconsin basis of assets disposed of exceeds the federal basis *(attach schedule)*	10	.00
11	Federal work opportunity credit wages	11	.00
12	Federal research credit expenses	12	.00

13 Other (list, but do not include any adjustment for nontaxable income from life insurance operations)

a		.00
b		.00
c		.00
d		.00
e		.00
f		.00
g		.00
h		.00

	Add lines 13a through 13h	13	.00
14	Nontaxable income from life insurance operations (from Schedule 4I, line 13)	14	.00
15	Job creation deduction (from line 7 of Schedule JC)	15	.00
	Enter number of members from combined group claiming job creation deduction		__ __ __ __
16	Total (enter on Form 4 or 5, page 1, line 4)	16	.00

IC-024i

Schedule **Y**

Wisconsin Department of Revenue

Wisconsin Subtraction Modification for Dividends

File with Wisconsin Form 4 or 5

Read instructions before filling in this schedule

2011

Corporation or Designated Agent Name | Federal Employer ID Number

Dividends Received

Line	Name of Payer Corporation / Name of Payee Corporation	Date Acquired by Payee / Payee's Ownership of Payer (check (√) one)		Dividends Received
1a	Name of Payer Corporation Name of Payee Corporation	Date Acquired by Payee M M D D C C Y Y Payee's Ownership of Payer (check (√) one) ☐ > 70% ☐ > 50% but < or = 70%	1a	.00
1b	Name of Payer Corporation Name of Payee Corporation	Date Acquired by Payee M M D D C C Y Y Payee's Ownership of Payer (check (√) one) ☐ > 70% ☐ > 50% but < or = 70%	1b	.00
1c	Name of Payer Corporation Name of Payee Corporation	Date Acquired by Payee M M D D C C Y Y Payee's Ownership of Payer (check (√) one) ☐ > 70% ☐ > 50% but < or = 70%	1c	.00
1d	Name of Payer Corporation Name of Payee Corporation	Date Acquired by Payee M M D D C C Y Y Payee's Ownership of Payer (check (√) one) ☐ > 70% ☐ > 50% but < or = 70%	1d	.00
1e	Name of Payer Corporation Name of Payee Corporation	Date Acquired by Payee M M D D C C Y Y Payee's Ownership of Payer (check (√) one) ☐ > 70% ☐ > 50% but < or = 70%	1e	.00
1f	Name of Payer Corporation Name of Payee Corporation	Date Acquired by Payee M M D D C C Y Y Payee's Ownership of Payer (check (√) one) ☐ > 70% ☐ > 50% but < or = 70%	1f	.00

1g	Add lines 1a through 1f	1g	.00
1h	Total of line 1g from additional Schedules Y (see instructions)	1h	.00
2	Add lines 1g and 1h	2	.00
3	Enter foreign taxes paid on dividends included on line 2.	3	.00
4	Subtract line 3 from line 2. Enter this amount on Schedule W, line 1	4	.00

Form **4A**

Wisconsin Department of Revenue

Wisconsin Apportionment Data for Combined Groups

File with Wisconsin Form 4

Read instructions before filling in this form

2011

Designated Agent Name	Federal Employer ID Number

Part I Apportionment Factor Denominators

(a) **Company Name** (abbreviate as necessary)	(b) **FEIN**	(c) **Denominator** (From column (b) of Form 4A-1 or Part II of Form 4A-2)
1		1a
2		2a
3		3a
4		4a
5		5a
6		6a

7 Total denominators from additional companies reported on separate schedules. . . . . **7a** ______

8 Add lines 1a through 7a in column (c). This is the combined group's apportionment factor denominator . . . . **8a** ______

Part II Apportionment Factor Numerators and Members' Percentages

(a) **Company Number** (Corresponds to numbers 1 through 6 in Part I)	(b) **Numerator** (From column (a) of Form 4A-1 or Part II of Form 4A-2)	(c) **Member's Wisconsin Percentage of Combined Unitary Income** (Divide amount in column (b) by amount on Part I, line 8a)
1	1b	1c __ __ __ . __ __ __ __ %
2	2b	2c __ __ __ . __ __ __ __ %
3	3b	3c __ __ __ . __ __ __ __ %
4	4b	4c __ __ __ . __ __ __ __ %
5	5b	5c __ __ __ . __ __ __ __ %
6	6b	6c __ __ __ . __ __ __ __ %

7 Total from additional companies reported on separate schedules . . . . **7c** __ __ __ . __ __ __ __ %

Part III Combined Group's Wisconsin Apportionment Percentage

8 Add lines 1c through 7c in Part II, column c.
This is the apportionment percentage to enter on Form 4, line 8 . . . . **8c** __ __ __ . __ __ __ __ %

Form **4A-1**

Wisconsin Department of Revenue

Wisconsin Apportionment Data for Single Factor Formulas

File with Wisconsin Form 1NPR, 2, 3, 4, 4T, or 5S

Read instructions before filling in this form

2011

Name	Federal Employer ID Number

Part I Sales Factor (Note: If Part I applies, you only need to complete page 1 of this form)

		Line	(a) Wisconsin	(b) Total Company
1	Sales of tangible personal property delivered or shipped to Wisconsin purchasers:			
	a Shipped from outside Wisconsin	1a		
	b Shipped from within Wisconsin	1b		
2	Sales of tangible personal property shipped from Wisconsin to:			
	a The federal government within Wisconsin	2a		
	b The federal government in a state where the taxpayer would not be taxable under P.L. 86-272.	2b		
	c Purchasers in a state where the taxpayer would not be taxable under P.L. 86-272.	2c		
3	Double throwback sales.	3		
4	Total sales of tangible personal property (for column (a), add lines 1 through 3)	4		
5	Gross receipts from the use of computer software if the purchaser or licensee used the software in Wisconsin	5		
6	Total gross receipts from the use of computer software	6		
7	Gross receipts from services provided to a purchaser who received the benefit of the service in Wisconsin	7		
8	Total gross receipts from services.	8		
9	Other apportionable gross receipts	9		
10	For column a, add lines 4, 5, 7 and 9. For column (b), add lines 4, 6, 8, and 9.	10		

Separate return filers and pass-through entities skip to line 17.

		Line	(a) Wisconsin	(b) Total Company
11	Enter sales included above, if any, that are intercompany sales between combined group members	11		
12	Enter sales included above, if any, that are **not** included in the computation of combined unitary income	12		
13	Add lines 11 and 12 for each column	13		
14	Subtract line 13 from line 10 for each column.	14		
15	Enter intercompany sales previously excluded from the sales factor due to the deferral of income, if the deferred income is included in combined unitary income on this return	15		
16	Add lines 14 and 15. Enter column (a) amount in Form 4A, Part II. Enter column (b) amount in Form 4A, Part I	16		
17	***Separate return filers and pass-through entities:*** Divide line 10, column (a) by line 10, column (b), and multiply by 100. This is the Wisconsin apportionment percentage	17	__ __ __ . __ __ __ __ %	

Part II Receipts Factor for Interstate Financial Institutions (See section Tax 2.49, Wis. Adm. Code)

			(a) Wisconsin	(b) Total Company
1	Gross interest and other fees from loans secured by real property	1		
2	Gross interest and other fees from loans secured by tangible personal property	2		
3	Gross interest and other fees from unsecured loans	3		
4	Net gains from sales of loans secured by real property	4		
5	Net gains from sales of loans secured by tangible personal property	5		
6	Net gains from sales of unsecured loans	6		
7	Gross receipts from credit card receivables	7		
8	Net gains from sales of credit card receivables	8		
9	Credit card issuer's reimbursement fees	9		
10	Gross receipts from merchant discount	10		
11	Loan servicing fees	11		
12	Gross receipts from travelers checks, cashiers checks, certified checks, and money orders	12		
13	Gross receipts from automated teller machines and safety deposit boxes	13		
14	Gross receipts from maintaining accounts	14		
15	Gross receipts from electronic funds transfer	15		
16	Gross receipts from cash management services	16		
17	Gross receipts from international trade services	17		
18	Gross receipts from data processing services and document imaging services	18		
19	Gross receipts from research services	19		
20	Gross receipts from trust services	20		
21	Gross receipts from investment banking services	21		
22	Gross receipts from brokerage services	22		
23	Gross receipts from services provided to regulated investment companies	23		
24	Gross receipts from other services	24		
25	Gross receipts from the lease of real property	25		
26	Gross receipts from the lease of tangible personal property	26		
27	Gross receipts from computer software	27		
28	Gross royalties and other gross receipts from intangibles, excluding securities	28		
29	Sales of tangible personal property (attach schedule)	29		
30	Gross receipts apportioned to a state where the taxpayer would not be taxable under P.L. 86-272	30		
31	Add lines 1 through 30 for column (a) (1 through 29 for column (b))	31		

		(a) Wisconsin	(b) Total Company

Separate return filers and pass-through entities skip to line 38.

			(a) Wisconsin	(b) Total Company
32	Enter sales or receipts included above, if any, that are intercompany transactions between combined group members	32		
33	Enter sales or receipts included above, if any, that are **not** included in the computation of combined unitary income	33		
34	Add lines 32 and 33 for each column	34		
35	Subtract line 34 from line 31 for each column	35		
36	Enter intercompany sales or receipts previously excluded from the receipts factor due to the deferral of income, if the deferred income is included in combined unitary income on this return	36		
37	Add lines 35 and 36. Enter column (a) amount in Form 4A, Part II. Enter column (b) amount in Form 4A, Part I.	37		
38	***Separate return filers and pass-through entities:*** Divide line 31, column (a) by line 31, column (b), and multiply by 100. This is the Wisconsin apportionment percentage	38	___ ___ ___ . ___ ___ ___ ___ %	

Part III Receipts Factor for Interstate Brokers-Dealers, Investment Advisers, Investment Companies, and Underwriters (See section Tax 2.495, Wis. Adm. Code)

			(a) Wisconsin	(b) Total Company
1	Gross brokerage commissions	1		
2	Gross margin interest earned	2		
3	Gross account maintenance fees	3		
4	Gross receipts, net of commissions, from sales of trading assets	4		
5	Gross receipts received on investment contracts	5		
6	Gross receipts from underwriting services	6		
7	Other gross receipts or net gains (attach schedule)	7		
8	Gross receipts apportioned to a state where the taxpayer would not be taxable under P.L. 86-272	8		
9	Add lines 1 through 8 for column (a) (1 through 7 for column (b))	9		

Separate return filers and pass-through entities skip to line 16.

			(a) Wisconsin	(b) Total Company
10	Enter sales or receipts included above, if any, that are intercompany transactions between combined group members	10		
11	Enter sales or receipts included above, if any, that are **not** included in the computation of combined unitary income	11		

		(a) Wisconsin	(b) Total Company
12 Add lines 10 and 11 for each column	**12**		
13 Subtract line 12 from line 9 for each column	**13**		
14 Enter intercompany sales or receipts previously excluded from the receipts factor due to the deferral of income, if the deferred income is included in combined unitary income on this return	**14**		
15 Add lines 13 and 14. Enter column (a) amount in Form 4A, Part II. Enter column (b) amount in Form 4A, Part I	**15**		
16 ***Separate return filers and pass-through entities:*** Divide line 9, column (a) by line 9, column (b), and multiply by 100. This is the Wisconsin apportionment percentage	**16**	__ __ __ . __ __ __ __ %	

Part IV Premiums Factor for Insurance Companies

		(a) Wisconsin	(b) Total Company
1 Direct premiums written for insurance on property and risks, other than life insurance	**1**		
2 Assumed premiums from domestic insurance companies written for reinsurance on property and risks, other than life insurance	**2**		
3 Add lines 1 and 2	**3**		

Separate return filers and pass-through entities skip to line 8.

		(a) Wisconsin	(b) Total Company
4 Enter premiums included above, if any, that are intercompany transactions between combined group members	**4**		
5 Enter premiums included above, if any, that are **not** included in the computation of combined unitary income	**5**		
6 Add lines 4 and 5 for each column	**6**		
7 Subtract line 6 from line 3 for each column. Enter column (a) amount in Form 4A, Part II. Enter column (b) amount in Form 4A, Part I.	**7**		
8 ***Separate return filers and pass-through entities:*** Divide line 3, column (a) by line 3, column (b), and multiply by 100. This is the Wisconsin apportionment percentage	**8**	__ __ __ . __ __ __ __ %	

Form **4M**

Wisconsin Department of Revenue

Wisconsin Combined Group Member - Level Data

File with Wisconsin Form 4

2011

Designated Agent of Combined Group | **A** Designated Agent's FEIN

Name of Combined Group Member to Which This Form Applies | **B** Member's FEIN

Number and Street | Suite Number | **C** Business Activity (NAICS) Code

City | State | ZIP (+ 4 digit suffix if known) | **D** State of Incorporation and Year

Enter abbreviation of state in box, or if a foreign country, enter below. C C Y Y

E Member's Taxable Year End M M D D

F Period Included in This Return M M D D C C Y Y – M M D D C C Y Y

G ___ Check (✓) if this member was excluded from a combined group in another state because it was not considered engaged in a unitary business. If checked, identify the applicable state(s) and explain on an attached statement.

H ___ Check (✓) if this member used a multiple factor apportionment formula as provided on Form 4A-2.

I ___ Check (✓) if for the period included in this return, the member filed a separate Wisconsin return or was included in the combined return of another group for items not included in this combined return. Enter the FEIN of the return under which those items were reported: ____________

J Check (✓) if the member is a(n): **1** ___ Insurance company **2** ___ Tax exempt corporation

K1 Check (✓) if applicable:

1 ___ First return - new corporation or entering Wisconsin
2 ___ Final return - corporation dissolved or withdrew
3 ___ Joined group during year
4 ___ Left group during year
5 ___ Short period - change in accounting method
6 ___ Short period - stock purchase or sale

K2 Did you file federal Schedule UTP – Uncertain Tax Position statement with the Internal Revenue Service?

___ Yes ___ No If yes, enclose federal Schedule UTP with your Wisconsin tax return.

ENTER NEGATIVE NUMBERS LIKE THIS → –1000 **NOT LIKE THIS → (1000)** **NO COMMAS; NO CENTS**

Part I Member's Share of Form 4 Items

L1 Line 9: Combined unitary income (= Form 4, line 7 x member's percentage from Form 4A, Part II. If this is a 100% Wisconsin group, see instructions and complete line L2 if applicable.) . . . . **L1** .00

L2 *100% Wisconsin groups:* Adjustment for current year loss offset (see instructions). . . . . **L2** .00

M Line 10: Wisconsin net nonapportionable and separately apportioned income (from Form 4N, line 14) **M** .00

N Line 12: Net capital loss adjustment (from Form 4CL, Part I, line 9e) . . . . **N** .00

O Line 14: Loss adjustment for insurance companies (from Schedule 4I, line 24). . . . . **O** .00

P Line 17: Wisconsin net business loss carryforward (from Part II, line 15 on page 2 of this form) . . . . **P** .00

Q Line 21: Gross tax (generally = 7.9% x (lines L1 + L2 + M - N - P). See instructions.). . . . . **Q** .00

R Line 22: Nonrefundable credits (from Part III, line 5 on page 2 of this form) . . . . **R** .00

S Line 24: Economic development surcharge (if applicable, = greater of $25 or 3% of gross tax on line Q; maximum of $9,800. See instructions.). . . . . **S** .00

T Line 28: If this member is not the designated agent and has separate estimated payments or overpayments to apply to this return, check (✓) after the letter "T" and complete Part IV on page 2. . . . . **T** ___

U Line 29: Wisconsin tax withheld (see instructions). . . . . **U** .00

V Line 30: Refundable credits { For each credit, enter code from instructions and amount. Enter total refundable credits on line V.

___ .00 ___ .00 ___ .00 **V** .00

W Line 43: Total company gross receipts from all activities (see instructions). . . . . **W** .00

X Line 44: Total company assets from federal Form 1120 . . . . **X** .00

Y Lines 45 and 47: Wisconsin tangible property **Y1** .00 Wisconsin payroll **Y2** .00

Z Line 50: Total sales, receipts, or premiums (member's denominator from Form 4A, Part I) . . . . . **Z** .00

Name of Combined Group Member | Member's FEIN

Part II Wisconsin Net Business Loss Carryforward

1	Member's portion of combined unitary income from Part I, line L1 plus line L2	1	.00
2	Member's net nonapportionable and separately apportioned income from Part I, line M	2	.00
3	Add lines 1 and 2	3	.00
4	Member's net capital loss adjustment from Part I, line N (enter as a positive amount)	4	.00
5	Subtract line 4 from line 3	5	.00
6	Member's net business loss carryforward from Form 4BL, Part II, line 30, column (g) (Nonshareable)	6	.00
7	Enter the lesser of line 5 or line 6, but not less than zero	7	.00
8	Subtract line 7 from line 5	8	.00
9	Member's net business loss carryforward from Form 4BL, Part II, line 30, column (h) (Shareable)	9	.00
10	Enter the lesser of line 8 or line 9, but not less than zero	10	.00
11	Subtract line 10 from line 9. This is your remaining Shareable net business loss carryforward	11	.00
12	Subtract lines 7 and 10 from line 5. This is your remaining income	12	.00
13	Shareable net business loss carryforward amount being shared with other members	13	.00
14	Shareable net business loss carryforward amount being shared with this member	14	.00
15	Member's net business loss. Add lines 7, 10, and 14. Enter this amount on Part I, line P	15	.00

Part III Nonrefundable Credits

1 Summary of available nonrefundable credits from credit schedules { For each credit, enter code from instructions and amount. Enter total nonrefundable credits on line 1.

	.00		.00		.00		
	.00		.00		.00		
	.00		.00		.00	1	.00

2	Enter the member's gross tax from Part I, line Q	2	.00
3	Enter the lesser of line 1 or line 2 (see instructions for exception). This is the credit used by the member	3	.00
4	If line 2 is less than line 1 and the remaining credit includes a research credit, enter the amount shared with other combined group members as computed on Form 4CS	4	.00
5	Add lines 3 and 4. This is the amount to enter on Part I, line R	5	.00

Part IV Member-Level Payment Data

Complete Part IV only if the member is not the designated agent and has estimated payments made on a separate entity basis or overpayments from a separate return year to apply to this combined return.

1	Enter the amount of the member's overpayment from previously filed returns to be applied	1	.00

2 *Estimated payments* - Enter date and amount of each payment made on a separate entity basis

__ /__ /__ $	__ /__ /__ $	__ /__ /__ $		
__ /__ /__ $	__ /__ /__ $	Total	2	.00

3	Add lines 1 and 2. This is the total amount of credit from this member's account to be included on Form 4, line 28	3	.00

Form **4U**

Wisconsin Department of Revenue

Underpayment of Estimated Tax by Corporations

File with Wisconsin Form 4, 4T, 5, or 5S

2011

Corporation or Designated Agent Name	Federal Employer ID Number

Part I Computation of Underpayment and Interest Due on Underpayment

1 **a** Enter 2011 tax before the surcharge plus the economic development surcharge *(see instructions)*		
b Enter 2011 refundable credits (excluding estimated tax and surcharge paid)		
c Subtract line 1b from line 1a. This is 2011 net tax and surcharge. If less than $500, enter zero and go to Part II, if applicable		
2 Enter 90% of line 1c		
3 **a** Enter 2010 tax before the surcharge plus the recycling surcharge, if applicable *(see instructions)* . . .		
b Enter 2010 refundable credits (excluding estimated tax and surcharge paid)		
c Subtract line 3b from line 3a. This is 2010 net tax and surcharge		
4 If 2011 net income is less than $250,000 and 2010 return covered 12 months, enter smaller of line 2 or 3c; otherwise, enter line 2		

	(a)	(b)	(c)	(d)
5 Enter installment due dates (the 15th day of the 3rd, 6th, 9th, and 12th months of your taxable year)				
6 Divide line 4 by 4 and enter the result in each column or, if you use the annualized income installment method for any period, first fill in Part III and enter the amounts from line 47				
7 Estimated tax and surcharge paid.				
8 If line 7 is less than line 6, subtract line 7 from line 6. This is your underpayment				
9 If line 7 is more than line 6, subtract line 6 from line 7. This is your overpayment				
10 Carryback of overpayment or late payment				
11 Carryforward of overpayment				
12 Subtract the total of lines 10 and 11 from line 8. This is your net underpayment				
13 Number of days from the due date of the installment to the date carryback on line 10 was paid				
14 Number of days from the due date of the installment to the date balance due on return was paid or unextended due date of return, whichever is earlier				
15 Interest: 12% per year on amount on line 10 for the number of days on line 13				
16 Interest: 12% per year on amount on line 12 for the number of days on line 14				

17 Add all of the amounts on lines 15 and 16 and enter the total. If your return is filed after the unextended due date and shows a tax due, enter the total on Part II, line 22. Otherwise, enter the total on the line provided on your tax return	

Part II Computation of Total Amount Due

Complete this part only if your return is not filed by the unextended due date and shows a tax due.	(a) Interest at 18% per year	(b) Interest at 12% per year	(c) Total
18 If return filed late without an extension, enter net tax (including surcharge)			
19 If return filed with extended due date and shows –	(90%)	(10%)	
a Net tax (including surcharge) of $500 or more, enter portion of net tax indicated . .			
b Net tax (including surcharge) of less than $500, enter net tax.			
20 Enter payments made (apply first to 18% per year column)			
21 Subtract line 20 from line 18 or 19a or 19b. This is amount due 15th day of 3rd month after end of taxable year			
22 Interest on underpayment from Part I, line 17.			
23 Add lines 21 and 22.			
24 Interest on amounts on line 23 to ________________ (date return filed)	(18% per year)	(12% per year) *	

25 If your return is filed late without an extension or after the extended due date –	
a Enter penalty of 5% of net tax due on your return for each month or fraction thereof that your return is late, but not more than 25%	
b Enter a $150 late fee	
26 Add lines 22, 24, 25a, and 25b. Enter the total on the line provided on your return and increase the "Amount Due"	

*** Note:** See the instructions for line 24.

Part III Annualized Income Installment Method Worksheet

Fill in this worksheet only if computing required installments using the annualized income installment method. **Complete one column through line 47 before completing the next column.** Form 4T filers see instructions to figure lines 27 and 29.	Annualization Period			
	(a) First 2 months	(b) First 5 months	(c) First 8 months	(d) First 11 months
27 Enter Wisconsin net income for each period *(see instructions)*				
28 Annualization factor	6	2.4	1.5	1.091
29 Multiply line 27 by line 28				
30 Adjustments (NBLs, etc. – *see instructions)*				
31 Combine lines 29 and 30. This is annualized income				
32 Multiply line 31 by 7.9% (0.079). This is annualized gross tax				
33 Enter your nonrefundable credits				
34 Subtract line 33 from line 32. If zero or less, enter zero				
35 Enter economic development surcharge (based on amount in this column)				
36 Add lines 34 and 35				
37 Enter your refundable credits (excluding estimated tax and surcharge paid)				
38 Subtract line 37 from line 36. If zero or less, enter zero. This is annualized net tax				
39 Applicable percentage	22.5%	45%	67.5%	90%
40 Multiply line 38 by line 39				
41 Enter the combined amounts of line 47 from all preceding columns				
42 Subtract line 41 from line 40. If zero or less, enter zero				
43 Divide Part 1, line 4, by 4 and enter the result in each column				
44 Enter the amount from line 46 for the preceding column				
45 Add lines 43 and 44 and enter the total				
46 If line 45 is more than line 42, subtract line 42 from line 45. Otherwise, enter zero				
47 Enter the smaller of line 42 or 45 here and on Part 1, line 6				

2011

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

New for 2011:

- **Job Creation Deduction**
- **Relocated Business Credit**
- **Super Research and Development Credit**
- **Community Rehabilitation Program Credit**
- **Beginning Farmer and Farm Asset Owner Credit**

Remember to file these with Form 4:
- Any extension
- A copy of your federal return, including consolidating schedules
- A list of solely owned LLCs
- Any other required forms or schedules, such as Schedule RT or Schedule CR

Do not staple attachments to your return. File electronically or use paper clips to submit these items.

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 6.

Visit us online at

www.revenue.wi.gov to…

- Obtain tax forms and instructions.
- Get answers to frequently asked questions (FAQs).
- 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 20.

IC-100 (12/11)

Table of Contents

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

- **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*

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

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.

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

Entities Not Required to File

The following entities are not required to file a Wisconsin franchise or income tax 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 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 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, or
- Nuclear decommissioning trust funds.

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

Separate Return or Combined Return?

Use this section to determine if the corporation must be included in a combined return. If so, see the *Form 4 Instructions for Combined 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 net 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 13 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

When and Where to File

Generally, a corporation 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. Corporations must file short period returns for Wisconsin if required to do so for federal purposes. A Wisconsin return for a short taxable year is due on or before the federal due date for that short taxable year.

Extensions. Any extension allowed by the IRS for filing the 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 taxable year. You can avoid interest charges during the extension period by paying the tax due by that date.

Filing Methods. Corporate 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 http://www.revenue.wi.gov/taxpro/news/110727b.html Also, see s. Tax 2.03(3)(b)(1), 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 https://www.revenue.wi.gov/Pages/WI-efile/home.aspx.

If you have an approved electronic filing waiver and must file your return on paper, follow these mailing instructions carefully:

- **Do not fasten, staple or bind the pages of your return.** Use paper clips instead.
- If you are submitting multiple returns, separate them with **colored separator sheets.**
- Use the mailing address shown on the form.

Period Covered by Return

A 2011 Wisconsin return must be filed by a corporation for calendar year 2011 or a fiscal year that begins in 2011. A fiscal year may end only on the last day of a month. The period covered by the return can't exceed 12 months. The return must cover the same period as the corporation's federal income tax return.

Corporations reporting on a 52-53 week period for federal tax purposes 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. The taxable year 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.

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 the 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 corporation's franchise or income tax and economic development surcharge due is $500 or more, it generally must make quarterly estimated tax payments. Failure to make required estimated tax payments may result in an interest charge.

Quick Refund. A corporation 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, 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 corporation 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 corporation 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 a corporation when EFT payments are required. The corporation 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.

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

Corporations not required to pay by EFT may elect to do so. For more information, visit the Department of Revenue's web site at http://www.revenue.wi.gov/eserv/eftgen.html, e-mail, sales10@revenue.wi.gov, call (608) 264-9918, or write to Electronic Funds Transfer Assistance, Wisconsin Department of Revenue, PO Box 8949, Madison, WI 53708-8949.

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 www.revenue.wi.gov, or you may request vouchers by calling any Department of Revenue office.

Required Disclosures and Attachments

In addition to filing Form 4 itself, the corporation may be required to disclose certain types of transactions included on the return or file information returns. The corporation must also provide a complete copy of the corporation's federal income tax return and other schedules to supplement the return. Each of these requirements is described below.

Disclosure of Related Entity Expenses. If the corporation will be deducting more than $100,000 (after considering the effect of apportionment), of interest, rent, management fees, or intangible expenses paid, accrued, or incurred to a related person or entity, the corporation must generally file Schedule RT, *Wisconsin Related Entity Expenses Disclosure Statement*, with its franchise or income tax return. The Schedule RT instructions explain the reporting requirements.

However, even if you are not required to file Schedule RT, if you are taking 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.

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, file a paper copy of the form, separate from your Form 4, to Wisconsin Department of Revenue, Tax Shelters Program, PO Box 8958, Madison, WI 53708-8958.

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 your Wisconsin franchise or income tax 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 the 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 the 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.

Federal Income Tax Return. All corporations filing Form 4 must include a complete copy of their federal income tax return, including all supporting schedules that were submitted to the IRS with the federal return.

If the corporation is a filing as a separate entity for Wisconsin purposes but is included in a consolidated return for federal purposes, you must also provide either a breakdown of the federal consolidated return amounts by company or a copy of the pro forma federal return for each corporation in the consolidated group.

Supporting Schedules for Return. The line-by-line instructions of the Wisconsin form you are filing often indicate that specific schedules are required to support amounts reported on the return. In some cases, the schedules must be on specific Department-prescribed forms, and in other cases you must prepare your own schedule. Follow the line-by-line instructions carefully.

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.

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 the corporation liquidated during the taxable year, put a check mark on the designated line in item D on the front of the return. Enter the date of liquidation as the taxable year ending date at the top of the return. Submit a copy of your plan of liquidation and a copy of federal Form 966 with your Wisconsin return.

Generally, the 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, regardless of the due date of the final return.

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, 2011, 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 2011.

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 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 2011 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

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 addback 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, Wisconsin 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.

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 2011. Corporation X has an asset it purchased for $100,000 on January 1, 2010. 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, 2011 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.

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.

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*.

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*. The amounts on Schedule 4I flow through to Schedule V, Schedule W, or Form 4, as appropriate. If the insurance company is in a combined group, it completes Schedule 4I on a separate entity basis and includes the adjustments on the applicable line of the combined return. 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

Ineligibility for Combined Reporting. 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.

Depreciation Differences. For RICs, REMICs, or REITs, the following depreciation differences apply:

- Depreciation and amortization on property located outside Wisconsin and placed in service on or after January 1, 1983, and before January 1, 1987, were to be determined under the December 31, 1980, IRC. However, the Wisconsin Tax Appeals Commission declared this provision unconstitutional in *Beatrice Cheese, Inc. vs. Wisconsin Department of Revenue* (February 24, 1993). Corporations have the option of either claiming the same depreciation deduction as for federal purposes, or continuing their present method of depreciation.
- IRC section 168(f)(8), relating to a special rule for leases (safe harbor), didn't apply for Wisconsin purposes.
- Depreciation for residential real property and property used in farming (if the corporation's Wisconsin gross farm receipts or sales exceeded $155,000 for the 1986 taxable year), acquired in the 1986 taxable year, but before January 1, 1987, must be determined under the December 31, 1980, IRC.

Other Federal-Wisconsin Adjustments. The only adjustments that RICs, REMICs, qualified REITs, and FASITs must make to federal taxable income to arrive at Wisconsin net income are:

- Those necessary to account for the depreciation and amortization differences described above,
- Differences in depreciation because Wisconsin follows the federal depreciation and amortization provisions in effect as of December 31, 2000,
- Any difference in the Wisconsin and federal basis of any asset disposed of in a taxable transaction, and
- Any other adjustment needed for changes made to the Internal Revenue Code that don't apply for Wisconsin.

None of the other adjustments listed on Schedules V or W apply to RICs, REMICs, qualified REITs, and FASITs.

Wholly-Owned REIT Subsidiaries. If a wholly-owned REIT subsidiary isn't treated as a separate entity under IRC section 856(i) and all of its assets, liabilities, and items of income and loss are treated as attributes of the REIT, that same treatment applies for Wisconsin purposes.

FASITs. The special rules for financial asset securitization investment trusts (FASITs) generally do not apply after 2004.

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.

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 separate returns only. Corporations that are in combined groups should see the *Form 4 Instructions for Combined Returns.*

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

■ **Header Information –** Before completing items A through J, fill in the corporation's 2011 taxable year at the top of the form and the corporation'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.

If the corporation dissolved, enter the date of dissolution as the ending date of the 2011 taxable year.

■ **Item A. Federal Employer Identification Number –** Enter the corporation's federal employer identification number (FEIN). If you haven't yet applied for a FEIN, you may do so by filing federal Form SS-4 with the IRS, calling the IRS's toll-free number (800) 829-4933, or applying online at http://www.irs.gov/.

■ **Item B. Business Activity (NAICS) Code –** Enter the corporation's principal business activity code, based on the North American Industry Classification System (NAICS), from your federal return. If your federal return is a consolidated return, go to https://www.census.gov/programs-surveys/economic-census/year/2022/guidance/understanding-naics.html to find the NAICS code for your principal business activity.

■ **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 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 an explanation of the change along with your amended return.

■ **Item D2. First Return –** Check here if this is the first year that you are filing a Wisconsin return because the corporation wasn't in existence or didn't do business in Wisconsin in prior years.

■ **Item D3. First Return –** Check here if the corporation ceased to exist or withdrew from Wisconsin during the year. If the corporation liquidated, provide a copy of your plan of liquidation and federal Form 966.

■ **Items D4 and D5. Short Period –** Check the applicable line if a short period return is being filed due to a change in the corporation's accounting period or a stock purchase or sale.

■ **Item E. Combined Return –** Ignore item E if you aren't filing a combined return.

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

■ **Item G. No Business Transacted in Wisconsin –** If the corporation was incorporated under Wisconsin law or licensed to do business in Wisconsin but had no property or activity in Wisconsin for the taxable year, check here and provide a complete copy of the corporation's federal return.

■ **Item H. Schedule RT Required –** Check here if the corporation is filing Schedule RT with its return. Schedule RT is generally required if the corporation is claiming a deduction for more than $100,000 of certain expenses paid, accrued, or incurred to a related person or entity in the taxable year. The $100,000 threshold amount is determined after accounting for the apportionment percentage.

The types of expenses to which Schedule RT applies, if paid, accrued, or incurred to a related person or entity, are:

- Interest expenses,
- Rent expenses,
- Management fees, and
- Intangible expenses.

See the Schedule RT instructions for details.

CAUTION: Regardless of whether you are required to file Schedule RT, you should be making an addition modification on Schedule V for interest, rent, management fees, or intangible expenses paid, accrued, or incurred to a related entity. Then, if the expenses meet the statutory tests required to be deductible, you may make a subtraction modification on Schedule W. See the instructions to Schedules V and W for details.

■ **Item I. Insurance Company Indicator –** Check here if the corporation is an insurance company.

■ **Item J. Federal Consolidated Return –** If the corporation participated in filing a federal consolidated return, check here and enter the parent corporation's federal employer identification number (FEIN). Please attach a statement to the return indicating why you believe that you qualify to file on a separate return basis rather than on a combined return basis.

■ **Line 1. Federal Taxable Income –** Enter the federal taxable income before the net operating loss deduction and special deductions. Generally, this is the amount from federal Form 1120, line 28. However, for certain types of corporations the applicable line of the federal return may be different. These certain types of corporations and applicable lines include the following:

- Insurance companies generally use total federal taxable income from lines 1 and 2 of Form 1120-PC
- Regulated investment companies (RICs) use Form 1120-RIC, line 26
- Real estate mortgage investment conduits (REMICs) use Form 1066, Schedule J, line 4 plus line 9
- Real estate investment trusts (REITs) use Form 1120-REIT, line 22
- For corporations that are treated as S corporations federally but are not treated as Wisconsin tax-option corporations, use Form 1120-S, line 21
- Cooperative associations use Form 1120-C, line 25c

■ **Line 2. Wisconsin Additions –** This is where you make addition adjustments to the amount you entered on line 1 in order to account for differences between taxable income under Wisconsin law and under federal law. Compute your addition modifications on Schedule V. See the Schedule V instructions for details. Enter the total from Schedule V on Form 4, line 2, except if you are using the separate accounting method, enter the total from Schedule V on Form 4C, line 11.

■ **Line 4. Wisconsin Subtractions –** This is where you make subtraction adjustments to the amount you entered on line 1 in order to account for differences between taxable income under Wisconsin law and under federal law. Compute your subtraction modifications on Schedule W. See the Schedule W instructions for details.

NOTE: If you have any dividends that qualify for the Wisconsin dividends received deduction, use Schedule Y to compute your subtraction modification for dividends, and enter the total on Schedule W, line 1.

Enter the total from Schedule W on Form 4, line 4, except if you are using the separate accounting method, enter the total from Schedule W on Form 4C, line 13.

■ **Line 6. Total Nonapportionable and Separately Apportioned Income –** Complete this line only if you have nonapportionable income or are using the separate accounting method. This is the total amount of taxable income under Wisconsin law that is not eligible for apportionment. This amount comes from line 8 of Form 4N. If you are using separate accounting, you will include the amounts you computed on Form 4C onto Form 4N. See the Form 4N instructions for details.

If any of the amount on line 6 is allocable to Wisconsin, you will enter the Wisconsin amount later on line 10.

■ **Line 8. Wisconsin Apportionment Percentage –** If you are using the apportionment method, complete Wisconsin Form 4A-1 or Form 4A-2, as applicable, and enter the apportionment percentage***. Fill all spaces to the right of the decimal point.*** Round to the nearest ten-thousandths of a percent (for example, 12.3456%).

If this return is for an insurance company that does business only in Wisconsin, enter "100.0000%" on line 8.

■ **Line 10. Wisconsin Nonapportionable and Separately Apportioned Income –** Complete this line only if you have nonapportionable income or are using the separate accounting method. If any of the amount you entered on line 6 is allocable to Wisconsin, enter the Wisconsin amount on line 10. This amount is computed on Form 4N, line 14.

■ **Line 14. Loss Adjustment for Insurance Companies –** Complete this line only if the corporation is an insurance company and the amount on line 13 is a loss. 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. Compute this amount in Part III of Schedule 4I. See the Schedule 4I instructions for details.

■ **Line 17. Wisconsin Net Business Loss Carryforward –** Enter the total Wisconsin net business loss carryforward from Form 4BL, Part 1, line 30, but do not enter more than line 16. However, if you choose to use less than the total allowable amount of net business loss carryforward, enter the amount that you will use. See the Tax Releases in *Wisconsin Tax Bulletin* issues 138 (April 2004) and 139 (July 2004) for more details on using carryforwards of net business losses and credits. You may access the *Wisconsin Tax Bulletin* on the Department's web site at http://www.revenue.wi.gov/, under the "Publications" link.

CAUTION: If line 16 is zero or a loss, do not fill in line 17. If the net business loss carryforward from Form 4BL exceeds the income reported on line 16, do not enter more than the amount on line 16.

Regulated investment companies, real estate mortgage investment conduits, real estate investment trusts, and financial asset securitization investment trusts enter zero on line 17.

■ **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 the corporation is an insurance company, this is where you adjust the tax liability so that it does not exceed 2% of gross premiums plus 7.9% of income realized from lottery prizes. Compute the adjustment in Part IV of Schedule 4I. See the Schedule 4I instructions for details.

■ **Line 21. Gross Tax –** Subtract the amount on line 20 from the amount on line 19.

■ **Line 22. Nonrefundable Credits –** Enter the total available nonrefundable credits from Schedule CR, line 48. However, if you choose to use less than the total available nonrefundable credits, enter the amount that you will use. See the Tax Releases in *Wisconsin Tax Bulletin* issues 138 (April 2004) and 139 (July 2004) for more details on using carryforwards of net business losses and credits. You may access the *Wisconsin Tax Bulletin* on the Department's web site at https://www.revenue.wi.gov, under the "Publications" link.

To determine if the corporation qualifies for any credits, see Publication 123, *Business Tax Credits for 2010* (available on the Department of Revenue's web site at www.revenue.wi.gov, under the "Publications" link). To claim a credit, complete the appropriate credit schedule, enter the credit amount on the appropriate line of Schedule CR, and submit the credit schedule and Schedule CR with your return.

NOTE: If you are filing a separate return, you must submit both Schedule CR and the applicable credit schedule(s) with your return.

If you are claiming more than one credit, you must claim the credits in a specific order. See the Schedule CR instructions for details.

■ **Line 23. Relocated Business Credit** -- If qualified to claim the relocated business credit, check the box on line 23 and enter the balance remaining after subtracting line 22 from line 21. If not qualified to claim the relocated business credit, enter 0. 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 –** If the corporation is subject to the economic development surcharge, enter the greater of $25 or 3% of the gross tax on line 21, but not more than $9,800. See the section for *Economic Development Surcharge*, under *Who Must File Form 4*, for more information on who is subject to the economic development surcharge.

■ **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 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 estimated tax payments made by the corporation, including EFT payments, or overpayments applied from prior years' returns, minus any "quick refund" applied for on Form 4466W.

CAUTION: You cannot claim estimated tax payments that were made by a related corporation or other related taxpayer.

■ **Line 30. Wisconsin Tax Withheld –** Enter your share of Wisconsin tax withheld from pass-through entities of which you are a member, as reported on Wisconsin Schedules 3K-1 or 2K-1. Include a copy of the Schedule 3K-1 or 2K-1 with the tax return that you file. Also enter the amount of Wisconsin tax withheld from lottery prizes.

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 total available refundable credits from Schedule CR, line 51. To determine if the corporation qualifies for any credits, see Publication 123, *Business Tax Credits for 2010* (available on the Department of Revenue's web site at www.revenue.wi.gov, under the "Publications" link).

To claim a credit, complete the appropriate credit schedule, enter the credit amount on the appropriate line of Schedule CR, and submit the credit schedule and Schedule CR with your return.

NOTE: If you are filing a separate return, you must submit both Schedule CR and the applicable credit schedule(s) with your return.

■ **Line 32. Amended Return - Amount Previously Paid -** Complete this line only if this is an amended 2011 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 on 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 2011 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 2011 Form 4. Fill in the refund from your original 2011 return (not including the amount applied to your 2012 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 2011 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 –** Enter any interest, penalty, and late fee due, as computed on 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 2011 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 if filing by paper and you have an approved electronic filing waiver attached to the return.

■ **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 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. 2012 Estimated Tax –** Enter the amount of any overpayment from line 38 that is to be credited to the corporation's 2012 estimated tax. The balance of any overpayment will be refunded. An overpayment shown on a corporation's final return will be refunded to the corporation that made the payments. 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 2012 return, include on line 39 the overpayment that you claimed as a credit on your 2012 return or on your previously filed original or amended 2011 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 total company 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 before apportionment for Wisconsin franchise or income tax purposes.

■ **Line 42. Total Assets –** Enter the total company assets from the federal return.

■ **Lines 43 and 44. Wisconsin and Total Company Property –** Enter the total amount of the company's real and tangible property located in Wisconsin (line 43) and the company's total amount of real and tangible property everywhere (line 44). 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 the corporation; you do not need to include property you are renting.

■ **Lines 45 and 46. Wisconsin and Total Company Payroll –** Enter the total amount of the company's payroll located in Wisconsin (line 45) and the company's total amount of payroll everywhere (line 46). Include only amounts attributable to employees of the corporation. In the computation of payroll located in Wisconsin, include individuals that satisfy one or more of the following:

- The individual's service is performed entirely in Wisconsin.
- The individual's service is performed in and outside Wisconsin, but the service performed outside Wisconsin is incidental to the individual's service in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and the base of operations of the individual is in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and, if there is no base of operations, the place from which the individual's service is directed or controlled is in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and neither the base of operations of the individual nor the place from which the service is directed or controlled is in any state in which some part of the service is performed, but the individual's residence is in Wisconsin.

■ **Line 47. Wisconsin Sales –** Complete this line only if you are using Form 4A-1 to determine your Wisconsin apportionment percentage. Enter the amount of Wisconsin sales, receipts, or premiums from the applicable line of Form 4A-1:

- Total Wisconsin sales from Part I, line 10, column a
- Total Wisconsin receipts from Part II, line 31, column a
- Total Wisconsin receipts from Part III, line 9, column a
- Total Wisconsin premiums from Part IV, line 3, column a

■ **Line 48. Total Company Sales –** Complete this line only if you are using Form 4A-1 to determine your Wisconsin apportionment percentage. Enter the amount of total sales, receipts, or premiums from the applicable line of Form 4A-1:

- Total company sales from Part I, line 10, column b
- Total company receipts from Part II, line 31, column b
- Total company receipts from Part III, line 9, column b
- Total company premiums from Part IV, line 3, column b

■ **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 the corporation in the corporation's amounts on the Wisconsin return. Include with your return a list of the corporation's solely-owned LLCs.

■ **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 http://www.revenue.wi.gov/html/sales.html, call (608) 266-2776, e-mail sales10@revenue.wi.gov, or write to the Wisconsin Department of Revenue, Mail Stop 5-77, PO Box 8949, Madison, WI 53708-8949.

■ **Line 52. 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.

■ **Lines 53 through 56. Contact Information and Miscellaneous –** Provide the information as instructed on the form.

■ **Line 57. *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.

■ **Signatures –** An officer of the 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, by 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.

■ **Supplemental Schedules –** File the following items as supplemental schedules to your Form 4:

- Your federal return with all supporting schedules
- If you are filing a federal consolidated return, a breakdown by individual company or a copy of the pro forma federal return for each corporation in the consolidated group
- A list of your solely owned LLCs
- Any extension of time to file your return
- Supporting schedules for Form 4
- Any attachments required for the supporting schedules you are filing, per the instructions to those schedules

NOTE: 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*.

Additional Information, Assistance, and Forms

Web Resources

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

- Related forms and their instructions
- Frequently asked questions (FAQs)
- Publications on specific tax topics
- The *Wisconsin Tax Bulletin*
- A home page specifically for combined reporting topics
- Links to the Wisconsin Statutes and Administrative Code

Contact Information

If you cannot find the answer to your question 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).
- Send a fax to (608) 267-0834
- Write to the Customer Service and Education Bureau, Wisconsin Department of Revenue, Mail Stop 5-77, PO Box 8949, Madison, WI 53708-8949
- 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 www.revenue.wi.gov
- Request them online at www.revenue.wi.gov
- Call (608) 266-1961
- Call or visit any Department of Revenue office

2011

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

www.revenue.wi.gov to…

- Obtain tax forms and instructions.
- Find answers on the Combined Reporting web page (under the "Businesses" link).
- Get answers to frequently asked questions (FAQs) 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

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 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 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 www.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 http://www.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 https://www.revenue.wi.gov/Pages/WI-efile/home.aspx.

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 2011 Wisconsin return must be filed for calendar year 2011 or a fiscal year that begins in 2011. 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 http://www.revenue.wi.gov/eserv/eftgen.html, e-mail sales10@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 www.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, file a paper copy of the form, separate from your Form 4, to Wisconsin Department of Revenue, Tax Shelters Program, PO Box 8958, Madison, WI 53708-8958.

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.

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, 2011, 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 2011.

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 2011 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 addback 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, Wisconsin 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 2011. Corporation X has an asset it purchased for $100,000 on January 1, 2010. 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, 2011 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 www.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)
14	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)
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 J, fill in the combined group’s 2011 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 http://www.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.

■ **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%."

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 14. 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.

CAUTION: Net business loss carryforwards that originated in taxable years beginning before January 1, 2009 cannot be shared among members of the group; they can only be claimed by the corporation that generated the loss.

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 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 2011 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 2011 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 2011 Form 4. Fill in the refund from your original 2011 return (not including the amount applied to your 2012 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 2011 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 2011 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 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. 2012 Estimated Tax –** Enter the amount of any overpayment from line 38 that is to be credited to the combined group's 2012 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 2012 return, include on line 39 the overpayment that you claimed as a credit on your 2012 return or on your previously filed original or amended 2011 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 http://www.revenue.wi.gov/html/sales.html, call (608) 266-2776, e-mail sales10@revenue.wi.gov, or write to the Wisconsin Department of Revenue, Mail Stop 5-77, PO Box 8949, Madison, WI 53708-8949.

■ **Line 52. 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.

■ **Lines 53 through 56. Contact Information and Miscellaneous –** Provide the information as instructed on the form.

■ **Line 57.** ***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.

■ **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 www.revenue.wi.gov, has a number of resources to provide additional information and assistance, including:

- A home page specifically for combined reporting topics (http://www.revenue.wi.gov/combrept/index.html)
- Related forms and their instructions
- Frequently asked questions (FAQs) 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 www.revenue.wi.gov
- Request them online at www.revenue.wi.gov
- Call (608) 266-1961
- Call or visit any Department of Revenue office

Instructions for 2011 Form 4A: Wisconsin Apportionment Data for Combined Groups

Purpose of Form 4A

Combined groups that are engaged in business within and outside Wisconsin use Form 4A to determine the total Wisconsin share of the combined unitary income and each member's portion of that Wisconsin share.

The numerators and denominators reported on Form 4A are based on the "modified sales factor" apportionment method that is prescribed for combined groups in sec. 71.255(5), Wis. Stats., and s. Tax 2.61(7), Wisconsin Administrative Code.

The combined group files only one Form 4A with its combined return. Every combined return that is filed by a combined group engaged in business within and outside Wisconsin must complete Form 4A and file it with the combined return.

Part I: Apportionment Factor Denominators

■ **Lines 1 through 6a. Denominators by Company –** For each company in the combined group (or for combined groups of more than six members, for the first six members of the combined group), enter the company name and federal identification number (FEIN) in columns a and b, respectively.

In column c for each company, fill in the modified sales factor denominator computed on that company's Form 4A-1, *Wisconsin Apportionment Data for Single Factor Formulas*, or Form 4A-2, *Wisconsin Apportionment Data for Multiple Factor Formulas*. The member's modified sales factor denominator may be reported on any of the following lines of Form 4A-1 or Form 4A-2, as applicable:

Form	Part	Line
Form 4A-1	I	16, col. b
Form 4A-1	II	37, col. b
Form 4A-1	III	15, col. b
Form 4A-1	IV	7, col. b
Form 4A-2	II	8

■ **Line 7a. Additional Companies on Separate Schedules –** If the combined group has more than six members, attach an additional schedule or schedules to list the additional members, their FEINs, and apportionment factor denominators as indicated in the table above. A combined group may use additional Forms 4A to report the additional companies or may create a separate schedule. Enter the total denominators from the additional schedules on line 7a.

■ **Line 8a. Total Denominator for Combined Group –** This is the "common denominator" that each member of the combined group will use to compute its Wisconsin percentage in Part II.

Part II: Apportionment Factor Numerators

■ **Lines 1b through 6c. Numerators by Company and Percentages –** In column b, for each of the companies you listed in Part I, in the order you listed them in Part I, fill in the numerator of the company's modified sales factor.

A member's modified sales factor numerator may be reported on any of the following lines of Form 4A-1 or Form 4A-2, as applicable:

Form	Part	Line
Form 4A-1	I	16, col. a
Form 4A-1	II	37, col. a
Form 4A-1	III	15, col. a
Form 4A-1	IV	7, col. a
Form 4A-2	II	10

In column c, enter the percentage computed by dividing the amount in column b by the common denominator in Part I, line 8a. Round to the nearest ten-thousandth of a percent.

■ **Line 7c. Additional Companies on Separate Schedules –** If you prepared a separate schedule or schedules for line 7a, use the same schedule(s) to enter each company's modified sales factor numerator and the percentage computed by dividing that numerator by the common denominator on line 8a. Then add the percentages on the additional schedule(s) and enter the total percentage on line 7c.

CAUTION: Round each company's percentage for column c to the nearest ten-thousandths of a percent (for example, 12.3456%); then add the percentages.

Part III: Combined Group's Wisconsin Apportionment Percentage

On line 8c, add the percentages computed on lines 1c through 7c. ***Fill all spaces to the right of the decimal point.*** Enter this amount on Form 4, line 8.

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 on combined reporting

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

Instructions for 2011 Form 4A-1: Wisconsin Apportionment Data for Single Factor Formulas

Purpose of Form 4A-1

Corporations, partnerships, tax-option (S) corporations and nonresident estates, trusts, and individuals that are engaged in a unitary business both in and outside Wisconsin generally use Form 4A-1 to compute the factors that will determine their Wisconsin share of income from the unitary business.

However, taxpayers in certain specialized industries cannot use Form 4A-1 because the Wisconsin Administrative Code requires them to apportion their income using more than one factor. These taxpayers must use Form 4A-2, *Wisconsin Apportionment Data for Multiple Factor Formulas*. Taxpayers that use Form 4A-2 include direct air carriers, motor carriers, railroads and sleeping car companies, pipeline companies, and telecommunications companies.

Taxpayers that use separate accounting also cannot use Form 4A-1. See the instructions for Form 4C for more information on separate accounting.

A taxpayer must complete only the part of Form 4A-1 that applies to them. The parts are as follows:

Part I. Sales Factor – This part is for taxpayers required to use the general single sales factor formula.

Part II. Receipts Factor – This part is for financial institutions required to use the receipts factor under s. Tax 2.49, Wisconsin Administrative Code.

Part III. Receipts Factor – This part is for other financial organizations required to use the receipts factor under s. Tax 2.495, Wisconsin Administrative Code.

Part IV. Premiums Factor – This part is for insurance companies required to use the premiums factor.

Special Instructions for Combined Groups

Each corporation in a combined group must complete Form 4A-1, if applicable, to report the apportionment data for its own activities. The combined group then carries forward the amounts from each member's Form 4A-1 (or Form 4A-2, if applicable) to Form 4A, *Wisconsin Apportionment Data for Combined Groups*, to determine the combined group's Wisconsin share of combined unitary income.

However, as a substitute for preparing multiple Forms 4A-1, a combined group may choose to prepare a columnar spreadsheet with the rows representing the appropriate lines of Form 4A-1 and each column representing a company in the combined group.

Specific Instructions for Each Part

These instructions are presented in the order the parts appear on Form 4A-1:

Part I: Sales Factor

For all of the amounts in Part I, only include amounts that are includable in the sales factor. Also, for lines 2b, c, and 3, you will need to compute the amount of throwback sales. The next two sections explain the sales factor and throwback sales. The line-by-line instructions for Part I follow the explanation of throwback sales.

Sales Factor in General

Items Includable in Sales Factor. For purposes of the sales factor, sales include, but aren't limited to, the following items related to the production of apportionable income:

- Gross receipts from the sale of inventory.
- Gross receipts from the operation of farms, mines, and quarries.
- Gross receipts from the sale of scrap or by-products.
- Gross commissions.
- Gross receipts from personal and other services.
- Gross rents from real property or tangible personal property.
- Interest on trade accounts and trade notes receivable.
- A member's share of a limited liability company's gross receipts or a partner's share of a partnership's gross receipts.
- Gross management fees.
- Gross royalties from income producing activities.

- Gross franchise fees from income producing activities.

"Gross receipts" means gross sales less returns and allowances, plus service charges, freight, carrying charges, or time-price differential charges incidental to the sales. Federal and state excise taxes, including sales and use taxes, are included as part of the receipts if the taxes are passed on to the buyer or included as part of the selling price.

Items Not Includable in Sales Factor. Do not include any of the following items in the sales factor:

- Gross receipts and gain or loss from the sale of tangible business assets, except receipts from the sale of inventory, scrap, or by-products or from the operation of a farm, mine, or quarry.
- Gross receipts and gain or loss from the sale of nonbusiness real or tangible personal property.
- Gross rents and rental income or loss from real property or tangible personal property if that real property or tangible personal property isn't used in the production of business income.
- Royalties from nonbusiness real property or nonbusiness tangible personal property.
- Proceeds and gain or loss from the redemption of securities.
- Interest, except interest on trade accounts and trade notes receivable, and dividends.
- Gross receipts and gain or loss from the sale of intangible assets, except inventory.
- Dividends deductible in determining net income.
- Gross receipts and gain or loss from the sale of securities.
- Proceeds and gain or loss from the sale of receivables.
- Refunds, rebates, and recoveries of amounts previously expended or deducted.
- Foreign exchange gain or loss.
- Royalties and income from passive investments in patents, copyrights, trademarks, trade names, plans, specifications, blueprints, processes, techniques, formulas, designs, layouts, patterns, drawings, manuals, and technical know-how.
- Pari-mutuel wager winnings and purses.
- Other items not includable in apportionable income.

Throwback Sales

A "throwback sale" is a taxpayer's sale of tangible personal property destined for a state where the taxpayer has no nexus. If a sale is a throwback sale, it is included in the numerator of the sales factor as a Wisconsin sale.

For purposes of determining throwback sales, a "state" is any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, and any United States territory or possession. A foreign country isn't a "state."

Nexus in General. To determine if a taxpayer has nexus in another state for purposes of computing throwback sales, you would generally use the same rules that are used to determine if a similarly situated taxpayer would be subject to Wisconsin franchise or income tax if it made the sale to Wisconsin from another state. However, if the Wisconsin Statutes provide a specific exemption from nexus, such as in sec. 71.23(3), Wis. Stats., do not apply that Wisconsin statutory exemption when you determine if there is nexus in the destination state.

A taxpayer engaged in the business of selling tangible personal property does not have nexus in any state where it is protected from taxation under federal Public Law 86-272 (P.L. 86-272). See s. Tax 2.82, Wisconsin Administrative Code, for more details of P.L. 86-272 and a description of what constitutes nexus for Wisconsin franchise or income tax purposes. Also see s. Tax 2.39(6)(b), Wisconsin Administrative Code, for more information about the relationship between nexus and throwback sales.

Nexus and Throwback Sales for Combined Groups. In a combined group, nexus is determined for the unitary business as a whole. Therefore, a combined group member's sales destined outside Wisconsin cannot be "thrown back" to Wisconsin if **any** member of the combined group has nexus relating to the unitary business in the destination state. The example below illustrates:

Example:

Corporation B has an office and inventory in Wisconsin, but when considered as a separate entity, it does not have any property or nexus-creating activity outside Wisconsin. However, Corporation B is in Combined Group BC, which consists of Corporations B and C. Corporation C has an office and retail store in Illinois, which are part of the same unitary business as B's Wisconsin office and inventory.

Assume that B sells a widget to a customer located in Illinois and ships it by common carrier to the customer's Illinois address. Corporation B should not include that sale in its sales factor numerator as a throwback sale. Since C has nexus in Illinois that relates to Combined Group BC's unitary business, B is also deemed to have nexus in Illinois.

See ss. Tax 2.61(7), and 2.82(5), Wisconsin Administrative Code, for further details of how nexus and throwback sales are determined for combined groups.

Line-by-Line Instructions for Part I

■ **Lines 1a and 1b. Tangible Personal Property Destined for Wisconsin –** Enter the amounts of Wisconsin destination sales. Gross receipts from the sales of tangible personal property, except sales to the federal government, are Wisconsin sales if the property is delivered or shipped to a purchaser in Wisconsin.

Wisconsin sales include sales of tangible personal property that are picked up by the purchaser, or the purchaser's agent, at the seller's out-of-state business location and immediately transported to the purchaser's Wisconsin business location.

Wisconsin sales do not generally include sales of tangible personal property picked up by the purchaser, or the purchaser's agent, at the seller's Wisconsin business location if the property is immediately transported to the purchaser's out-of-state business location. However, if the seller doesn't have nexus with the state where the purchaser's business is located, the sales are "thrown back" to Wisconsin.

■ **Line 2a. Sales to Federal Government in Wisconsin –** Enter the amount of sales of tangible personal property delivered to the federal government, including its agencies and instrumentalities, in Wisconsin if the property is shipped from an office, store, warehouse, factory, or other place of storage in Wisconsin. Sales to federal government locations in Wisconsin, which are shipped from an office, store, warehouse, factory, or other place of storage outside Wisconsin, aren't Wisconsin sales.

■ **Line 2b. Throwback Sales to Federal Government –** Enter the amount of sales of tangible personal property delivered to the federal government, including its agencies and instrumentalities, outside Wisconsin if the property is shipped from an office, store, warehouse, factory, or other place of storage in Wisconsin and the seller doesn't have nexus in the destination state.

■ **Line 2c. Throwback Sales –** Enter the amount of sales, other than sales to the federal government, that are "thrown back" to Wisconsin. These are sales of tangible personal property shipped from an office, store, warehouse, factory, or other place of storage in Wisconsin to a state in which the seller doesn't have nexus.

■ **Line 3. Double Throwback Sales –** Enter the amount of "double throwback" sales. These are sales of tangible personal property, other than sales to the federal government, which were made by an office in Wisconsin but not shipped or delivered from Wisconsin, **if** the taxpayer doesn't have nexus in either the destination state or the state from which the property is shipped or delivered.

■ **Line 5. Receipts from Use of Computer Software –** Enter the amount of gross receipts from the use of computer software that the purchaser or licensee uses at a location in Wisconsin. Computer software is used in Wisconsin if the purchaser or licensee uses the software in the regular course of business operations in Wisconsin, for personal use in Wisconsin, or if the purchaser or licensee is an individual whose domicile is in Wisconsin.

If the purchaser or licensee uses the computer software in more than one state, the gross receipts are divided among those states having jurisdiction to impose an income tax on the taxpayer in proportion to the use of the computer software in those states. To determine computer software use in Wisconsin, the Department may consider the number of users in each state where the software is used, the number of site licenses or workstations in Wisconsin, and any other factors that reflect the use of computer software in Wisconsin.

■ **Line 7. Receipts from Services –** Enter the amount of gross receipts from services if the purchaser of the service received the benefit of the service in Wisconsin. The benefit of the service is received in Wisconsin if any of the following applies:

- The service relates to real property that is located in Wisconsin.
- The service relates to tangible personal property that is located in Wisconsin at the time that the service is received or tangible personal property that is delivered directly or indirectly to customers in Wisconsin.
- The service is provided to an individual who is physically present in Wisconsin at the time that the service is received.
- The service is provided to a person engaged in a trade or business in Wisconsin and relates to that person's business in Wisconsin.

If the purchaser of a service receives the benefit of the service in more than one state, the gross receipts from the service are included in the numerator of the sales factor according to the portion of the service received in Wisconsin.

■ **Line 9. Other Apportionable Gross Receipts –** For both Wisconsin and the total company, enter the amount of other gross receipts of apportionable income that are includable in the sales factor. These gross receipts may include:

- Leases, rentals, or licensing of tangible personal property, including moving property.
- Sales, leases, rentals, or licensing of real property.
- Sales of intangible property.
- Royalties, licensing or allowing the use of intangible property.

In general, these gross receipts are in Wisconsin in proportion to the purchaser's use of or benefit from the property in Wisconsin. See s. Tax 2.39(6)(c), (d), (h), and (i), Wisconsin Administrative Code, for further details on how to determine the amount of these other apportionable gross receipts in Wisconsin.

■ **Line 11. Intercompany Sales** *(Combined Group Members Only)* **–** Any sales made between members of the same combined group ("intercompany sales"), either directly or through interests in a pass-through entity, must be excluded from the amounts you entered on lines 1 through 9.

Report the excluded amount of intercompany sales on line 11. If you already excluded these intercompany sales from the amounts you entered on lines 1 through 9, do not enter any amounts on line 11.

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

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

Example 1: Combined Group LM consists of Member L and Member M. L owns a 40% interest in Partnership P. M owns a 60% interest in Partnership P. On March 1, 2011, L sells a widget to Partnership P for $10,000, and this sale is includable in Group LM's combined unitary income. In its computation of apportionment factors for 2011, L must subtract an amount of $10,000 (= $10,000 x (40% + 60%)) from its sales factor denominator and, if applicable, from its numerator.

Example 2: Assume the same facts as Example 1, except that Member L owns a 25% interest and M owns a 50% interest in Partnership P. In its computation of apportionment factors for 2011, L must subtract an amount of $7,500 (= $10,000 x (25% + 50%)) from its sales factor denominator and, if applicable, from its numerator.

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

Example: Combined Group ST consists of Member S and Member T. S owns a 20% interest in Partnership R. T owns an 80% interest in Partnership R. On October 1, 2011, Partnership R sells a widget to S for $20,000, and this sale is includable in Group ST's combined unitary income. In its computation of apportionment factors for 2011, S must subtract an amount of $4,000 (= $20,000 x 20%) from its sales factor denominator and, if applicable, from its numerator. Similarly, T must subtract an amount of $16,000 (= $20,000 x 80%) from its sales factor denominator and, if applicable, from its numerator.

■ **Line 12. Sales Excluded from Combined Unitary Income** *(Combined Group Members Only)* – If you reported an amount on Form 4, line 6 for separately apportioned income, you must exclude the sales attributable to that amount from the numerator and denominator of the sales factor, as applicable. Report the excluded amount of these sales on line 12. However, if you already excluded these sales from the amounts you entered on lines 1 through 9, do not enter any amounts on line 12.

See the instructions to Form 4N, *Wisconsin Nonapportionable and Separately Apportioned Income*, for further details on how to report and apportion separately apportioned income.

■ **Line 15. Sales Previously Deferred** *(Combined Group Members Only)* **–**If a combined group member made a sale to another member of the combined group in a prior taxable year and gain or loss on the transaction was deferred under the provisions of sec. 71.255(4)(g), Wis. Stats., the selling member must include the gross receipts from the sale in its sales factor in the year the gain or loss is recognized, to the extent those gross receipts are otherwise includable in the sales factor.

NOTE: Section 71.255(4)(g), Wis. Stats., provides that the intercompany deferral provisions of Treas. Reg. §1.1502-13 apply to a combined group similarly to how they apply to a consolidated group for federal purposes. See the instructions to line 22 of Form 4R, *Federal Taxable Income Reconciliation for Wisconsin Combined Groups*, for details.

Report the gross receipts corresponding to any income recognized under sec. 71.255(4)(g), Wis. Stats., on line 15. If you already included these receipts in the amounts you entered on lines 1 through 9, do not enter any amounts on line 15.

Under s. Tax 2.61(7)(d), Wisconsin Administrative Code, special sourcing rules apply to amounts reported on line 15. If a combined group member sells an item or service to another combined group member and the purchaser subsequently resells it to a third party outside of the group, the situs of both sales is determined based on the situs of the sale from the purchasing member to the third party. Also, the purchasing member must exclude from its apportionment factors the amount the selling member already included attributable to that same item or service. The example below illustrates:

Example:

Combined Group YZ consists of Member Y and Member Z. Group YZ is on a calendar year. On December 30, 2010, Y sells a widget with a cost of $400 to Z, for $600. Y ships the widget to Z's warehouse in Wisconsin. On January 30, 2011, Z resells the widget to Q, an unrelated third party, for $700. Z ships the widget to Q's headquarters in Illinois. Assume both the sale by Y and the sale by Z are includable in combined unitary income, and assume that Z has nexus in Illinois.

In 2010, Y did not recognize any gain on the sale to Z because the gain was deferred under the provisions of sec. 71.255(4)(g), Wis. Stats. Since the gain on the sale was not recognized, Y cannot include the $600 sale in its apportionment factors for 2010.

In 2011, Y must include its $200 of gain on the sale to Z (= $600 - $400) in combined unitary income. Y must also include the sale amount of $600 in its sales factor denominator for 2011. Z must include its $100 gain on the sale to Q (= $700 - $600) in combined unitary income for 2011. However, since $600 of Z's sales price has already been included in Y's sales factor, Z may only include the remaining $100 of the sale amount in its sales factor denominator. Neither Y nor Z include these amounts in their sales factor numerators since both sales are deemed to have a situs in Illinois where Group YZ has nexus.

■ **Line 17. Apportionment Percentage** *(Separate Filers Only)* **–** Divide line 10, column a, by line 10, column b, and multiply that amount by 100. ***Fill all spaces to the right of the decimal point.*** Round to the nearest ten-thousandth of a percent (for example, 12.3456%). See the instructions of the tax form you are filing (Form 1NPR, 2, 3, 4, 4T, or 5S) for how to report and use this percentage.

Parts II and III: Receipts Factor

Receipts Factor in General

Financial institutions required to use apportionment must use the receipts factor prescribed in s. Tax 2.49, Wisconsin Administrative Code. Brokers-dealers, investment advisers, investment companies, and underwriters required to use apportionment must use the receipts factor prescribed in s. Tax 2.495, Wisconsin Administrative Code.

Under both ss. Tax 2.49 and 2.495, interest, dividends, gross receipts or net gains from sales of securities held for investment purposes, and other income from investment assets, may not be included in the receipts factor.

Instructions for Part II

Lines 1 through 30 of Part II list, in order, the items includable in the receipts factor under s. Tax 2.49, Wisconsin Administrative Code. For each line, refer to s. Tax 2.49 for an explanation of what must be included on each line and how to determine the Wisconsin amount.

Report throwback sales on line 30. For an explanation of throwback sales and how they apply to members of a combined group, see the section *Throwback Sales*, which is presented before the line-by-line instructions for Part I.

Lines 32 through 37 are for combined group members only. For lines 32, 33, and 36, the instructions are the same as for lines 11, 12, and 15 of Part I, except that where the Part I instructions refer to lines 1 through 9, the applicable lines for Part II are lines 1 through 30.

Instructions for Part III

Lines 1 through 8 of Part III list, in order, the items includable in the receipts factor under s. Tax 2.495, Wisconsin Administrative Code. Refer to s. Tax 2.495 for an explanation of what must be included on each line and how to determine the Wisconsin amount.

Report throwback sales on line 8. For an explanation of throwback sales and how they apply to members of a combined group, see the section *Throwback Sales*, which is presented before the line-by-line instructions for Part I.

Lines 10 through 15 are for combined group members only. For lines 10, 11, and 14, the instructions are the same as for lines 11, 12, and 15 of Part I, except that where the Part I instructions refer to lines 1 through 9, the applicable lines for Part III are lines 1 through 8.

Part IV: Premiums Factor

■ **Line 1. Direct Premiums –** In column a, enter the direct premiums written on all property and risks other than life insurance, where the subject of insurance was resident, located, or to be performed in Wisconsin. In column b, enter the total direct premiums on all property and risks other than life insurance, wherever located during the taxable year.

■ **Line 2. Assumed Premiums –** In column a, enter the assumed premiums from domestic insurance companies written for reinsurance on property and risks other than life insurance, where the subject of insurance was resident, located, or to be performed in Wisconsin. In column b, enter the assumed premiums from domestic insurance companies written for reinsurance on property and risks other than life insurance, wherever located during the taxable year.

■ **Lines 4 through 7. Adjustments for Combined Group Members Only –** For lines 4 and 5, the instructions are the same as for lines 11 and 12 of Part I, except that where the Part I instructions refer to lines 1 through 9, the applicable lines for Part IV are lines 1 and 2.

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 on combined reporting

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

Instructions for 2011 Form 4M: Wisconsin Combined Group Member-Level Data

Purpose of Form 4M

In a combined return, a combined group must complete one Form 4M for **each** member of the group, including the designated agent under whose name the combined return is filed. Form 4M serves the following purposes:

- Determines the member's share of the group's tax liability, including tax attributable to separate entity items.
- Computes the member's economic development surcharge liability.
- Tracks the use of the member's Wisconsin net business losses and credits.
- Allows the member's research credits to be shared with other members of the group.
- Reports information needed to validate estimated payments.

If a combined group has a corporation in its commonly controlled group that is not in the combined group, the combined group may choose to report that company's separate entity items on a Form 4N, *Wisconsin Nonapportionable and Separately Apportioned Income*, filed with the combined return. If the combined group is including a nonmember corporation's Form 4N in the combined return, it must complete a Form 4M for that company also.

Line-by-Line Instructions

Complete Form 4M for each member after you have completed lines 1 through 9 of the combined Form 4 and the applicable supporting schedules.

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

These instructions are presented in the order the lines appear on Form 4M:

Header Information

On the first line, enter the name and federal employer identification number (FEIN) of the combined group's designated agent. On the second line, enter the name and FEIN of the corporation to which the Form 4M applies, even if it is also the designated agent. Then enter the corporation's address information.

Specific instructions for items C through K2 follow. Throughout these instructions, the "corporation" means the company to which the Form 4M applies.

■ **Item C. Business Activity (NAICS) Code –** Enter the corporation's principal business activity code, based on the North American Industry Classification System (NAICS), from the federal return, or go to www.census.gov/epcd/www/naics.html to find the NAICS code.

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

■ **Item E. Member's Taxable Year End –** Enter the month and day of the corporation's most recently ended taxable year, as determined for federal income tax purposes. If the corporation and the combined group have the same taxable year end, enter the month and day of the last day included in this return.

■ **Item F. Period Included in This Return –** Enter the beginning and ending dates of the corporation's taxable year included in the combined return, even if they are the same beginning and ending dates as the combined group's taxable year. Note that if a combined group member uses a different taxable year than the group itself, that member's taxable year may be converted to the combined group's taxable year in one of two ways:

1. Preparing a separate income statement for the member for the months included in the combined group's taxable year.
2. Using the amounts for the member's taxable year that ends during the combined group's taxable year.

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.

If the corporation joined or left the combined group during the year, the beginning or ending date, or both, shown in item F will be different than the beginning and ending dates of the combined group's taxable year.

■ **Item G. Indicator for Nonunitary in Another State –** Check the box if the corporation is excluded from a combined ("unitary") return in another state because it is not considered engaged in a unitary business in that state.

If you check the box, attach a statement to identify the state for which the corporation is excluded from the combined return and explain why that state does not consider the corporation to be part of the combined group's unitary business.

NOTE: Skip item G if the group made the controlled group election or if the corporation is a nonmember corporation filing Form 4N with the combined return.

■ **Item H. Multiple Factor Apportionment Indicator –** Check the box if the corporation computed its apportionment factors using Form 4A-2, *Wisconsin Apportionment Data for Multiple Factor Formulas*. This would be the case if the corporation is an air carrier, motor carrier, railroad or sleeping car company, pipeline company, or telecommunications company.

■ **Item I. Multiple Return Indicator –** If the corporation was included in another Wisconsin return for any part of the period indicated in item F (other than a previously filed combined return for the same combined group), check the box and enter the FEIN under which that other return was filed. If that other return was for another combined group, enter the FEIN of that group's designated agent. If that other return is a separate return filed by the corporation, enter the corporation's FEIN.

In general, there are two instances in which you would check item I:

1. If the corporation is simultaneously part of more than one unitary business, or
2. Has separate entity items it chooses to report on a separate return rather than on Form 4N.

■ **Item J. Insurance Company and Tax Exempt Corporation Indicators –** Check the appropriate box if the corporation is an insurance company or a tax exempt corporation.

NOTE: If the corporation is an insurance company, it may be required to file Schedule 4I to make adjustments specific to insurance companies. See the Schedule 4I instructions for details.

■ **Item K1, Numbers 1 and 2. First Return or Final Return –** Check item K1, number 1 if this is the first year that the corporation is filing a Wisconsin return because it wasn't in existence or didn't do business in Wisconsin in prior years. Check item K1, number 2 if the corporation ceased to exist or withdrew from Wisconsin during the year, and provide a copy of the plan of liquidation and federal Form 966 if the corporation liquidated.

■ **Item K1, Numbers and 4. Joined or Left Group During Year –** Check item K1, number 3 if this is the first year that the corporation is part of the combined group. Check item K1, number 4 if the corporation left the combined group during the year.

■ **Item K1, Numbers 5 and 6. Short Period –** If the period included in this return is less than a full year, check the appropriate box to indicate whether the short period is due to a change in the corporation's accounting period or a stock purchase or sale.

■ **Item K2. Uncertain Tax Positions -** Check yes if Schedule UTP was filed with the Internal Revenue Service and include a copy of the schedule with your Wisconsin tax return.

Part I: Member's Share of Form 4 Items

In general, Part I of Form 4M is similar to a partner's Schedule K-1 in a partnership. Most of lines L1 through Z begin with a reference to a line on Form 4. For example, Line L1 of a corporation's Form 4M corresponds to line 9 of the combined group's Form 4.

IMPORTANT: Throughout Part I, except for lines L2 and T, the sum of each of lines L1 through Z for all corporations in the combined return must equal the amount on the corresponding line of Form 4.

■ **Line L1. Member's Share of Combined Unitary Income –** This is the member's share of the group's combined unitary income apportioned to Wisconsin, before net business loss carryforwards. Multiply the group's total combined unitary income from Form 4, line 7 by the member's Wisconsin percentage from Form 4A, Part II, column c, and enter the result on Line L1. This is the member's share of the amount on Form 4, line 9.

If the combined group is engaged in business only in Wisconsin (a "100% Wisconsin" group), special instructions apply:

Line L1 for "100% Wisconsin" Groups. Since a 100% Wisconsin group does not use apportionment, the amount on each member's line L1 should be its total income or loss from the unitary business, determined in a specific basis for that corporation. However, the corporation must make the adjustments prescribed in s. Tax 2.61(8), Wisconsin Administrative Code, to reflect the corporation's status as a combined group member.

For example, under s. Tax 2.61(8)(a), Wisconsin Administrative Code, intercompany transactions (except those to which Treas. Reg. §1.1502-13 already applies) for expenses paid, accrued, or incurred by one member of the combined group to another, are disregarded so that they neither increase nor decrease a member's portion of the combined unitary income.

For more information on how to determine the net capital gains, stock basis, and earnings and profits of a corporation that is a member of a 100% Wisconsin group, see s. Tax 2.61(8), Wisconsin Administrative Code.

After you make the adjustments prescribed in s. Tax 2.61(8), if there are some members with net income from the unitary business and others with net losses from the unitary business, do not make any adjustments on line L1 to offset the losses against the incomes. Those adjustments will be accounted for on line L2.

■ **Line L2. Adjustment for Current Year Loss Offset –** Complete this line only if the combined group is a 100% Wisconsin group **and** there are some members with net income from the unitary business and others with net loss from the unitary business, as computed on line L1.

NOTE: Skip line L2 if all members have a positive amount on line L1 or if all members have a negative amount on line L1.

A member's positive amount (income) on Line L1 must be offset by other members' negative amounts (losses) on Line L1. Line L2 is used to account for these offsets for purposes of computing the member's gross tax and accounting for net business losses.

The computation of the amount on line L2 depends on whether the combined unitary income reported on line 7 of Form 4 is a positive amount (income) or a negative amount (loss).

If combined unitary income is positive, compute the total of the members' negative amounts reported on line L1, and allocate that total to the members with positive amounts on line L1 in proportion to those positive amounts. If combined unitary income is negative, compute the total of the members' positive amounts reported on line L1, and allocate that total to the members with negative amounts on line L1 in proportion to those negative amounts.

If you are computing offset amounts, you must use the allocation method described above. On line L2, you will report the adjustments to each member's amount on line L1 as necessary to reflect the offset.

The following examples illustrate how to determine the adjustment amounts to enter on line L2:

Example 1: Combined Group ABCD consists of Member A, Member B, Member C, and Member D. The members' amounts on line L1 are as follows:

	A	B	C	D
Line L1	10,000	30,000	-15,000	-10,000

As a whole, Group ABCD has combined unitary income of $15,000 (= $10,000 + $30,000 - $15,000 - $10,000), which is reported on line 7 of Form 4. This amount consists of a total of $40,000 of income from Members A and B and a total of -$25,000 of loss from Members C and D. The loss amount from Members C and D is allocated to Members A and B on a pro rata basis in proportion to their income amounts on line L1. Thus, the amount of loss allocated to Member A is -$6,250 (= $10,000/$40,000 x -$25,000) and the amount allocated to Member B is -$18,750 (= $30,000/$40,000 x -$25,000)

Therefore, the amounts reported by each member on lines L1 and L2 of Form 4M are as follows:

	A	B	C	D
Line L1	10,000	30,000	-15,000	-10,000
Line L2	-6,250	-18,750	15,000	10,000
	$3,750	$11,250	$0	$0

Note that after the allocation, C and D have $0 of the combined unitary income and A and B have the entire $15,000 the group's combined unitary income.

Example 2: Assume the same facts as Example 1, except that Member A reports $15,000 on line L1 and Member B reports $5,000 on line L1, so the amounts are as follows:

	A	B	C	D
Line L1	15,000	5,000	-15,000	-10,000

As a whole, Group ABCD has combined unitary income (loss) of -$5,000 (= $15,000 + $5,000 - $15,000 - $10,000), which is reported on line 7 of Form 4. This amount consists of a total of $20,000 of income from Members A and B and a total of -$25,000 of loss from Members C and D. The income amount from Members A and B is allocated to Members C and D on a pro rata basis in proportion to their loss amounts on line L1. Thus, the amount of income allocated to Member C is $12,000 (= -$15,000/-$25,000 x $20,000) and the amount allocated to Member D is $8,000 (= -$10,000/-$25,000 x $20,000).

Therefore, the amounts reported by each member on lines L1 and L2 of Form 4M are as follows:

	A	B	C	D
Line L1	15,000	5,000	-15,000	-10,000
Line L2	-15,000	-5,000	12,000	8,000
	$0	$0	-$3,000	-$2,000

Note that after the allocation, A and B have $0 of the combined unitary loss and C and D have the entire -$5,000 of the group's combined unitary loss.

■ **Line M. Nonapportionable and Separately Apportioned Income –** If the corporation has net income or loss that it could not include in combined unitary income, complete Form 4N to determine the Wisconsin amount (if any) of that income. On line M, enter the amount from Form 4N, line 14.

■ **Line N. Net Capital Loss Adjustment –** If the combined group reported a net capital gain on line 18 of Form 4R, *Federal Taxable Income Reconciliation for Wisconsin Combined Groups*, and the corporation has non-sharable capital loss carryovers or a current year net capital loss from Form 4N, complete Form 4CL to determine the amount of additional capital loss allowable to the corporation. On line N, enter the amount from the corporation's Form 4CL, Part I, line 9e. See the Form 4CL instructions for details.

■ **Line O. Loss Adjustment for Insurance Companies –** If the corporation is an insurance company and the sum of lines L1 through M minus line N is a negative amount, you may need to reduce the loss amount by the dividends received deduction. See the Schedule 4I instructions for details. If the corporation has an amount on Schedule 4I, line 24, enter that amount on line O.

■ **Line P. Net Business Loss Carryforward –** If the sum of lines L1 through M minus line N is a positive amount and the corporation has a net business loss carryforward, see the instructions for Part II. Enter the amount from line 15 of Part II.

■ **Line Q. Gross Tax –** For corporations other than insurance companies, the gross tax on line Q is computed as follows:

	Share of combined unitary income (= line L1 + L2)
+	Income from separate entity items (line M)
-	Net capital loss adjustment (line N)
-	Net business loss carryforward (line P)
	Wisconsin net income
x	7.9% (0.079)
=	Gross tax (line Q) (Cannot be less than zero)

Line Q Computation for Insurance Companies. For insurance companies, the gross tax on line Q is generally the lesser of the amount computed for regular corporations, as shown above, or 2% of its gross premiums. An insurance company completes Schedule 4I, Part IV to determine its gross tax. For an insurance company, the amount to enter on Form 4M, line Q is the lesser of the amounts on Schedule 4I, line 26 or Schedule 4I, line 29.

If the 2% of gross premiums computation applies, the corporation will include an adjustment on Form 4, line 20 to reduce the tax liability on the combined return. This adjustment is computed on Schedule 4I, line 30. See the Schedule 4I instructions for further details.

■ **Line R. Nonrefundable Credits –** If the corporation has nonrefundable credits to use against its gross tax, or research credits eligible to be shared with the other combined group members, see the instructions for Part III. Enter the amount from line 5 of Part III.

■ **Line S. Economic Development Surcharge –** The economic development surcharge is computed separately for each member based on the activity reported on Form 4M. If one member of the combined group has nexus with Wisconsin, all members of the combined group are considered to have nexus with Wisconsin for purposes of the economic development surcharge. However, only members that have "gross receipts from all activities" of $4 million or more during the taxable year are subject to the economic development surcharge.

Gross Receipts for Purposes of Economic Development Surcharge. For purposes of the gross receipts threshold, "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.

The gross receipts you use for purposes of applying the $4 million threshold are the same gross receipts you will report later on Form 4M, line W. The taxable year you use to determine this amount is the period included in the combined return, as you previously identified in item F.

Computation of Surcharge. If the corporation's gross receipts from all activities are $4 million or more, multiply the gross tax on line Q by 3% and enter the result on line S, except if the result is less than $25, enter $25, and if the result is greater than $9,800, enter $9,800.

If the corporation is simultaneously included in more than one return (for example, if the corporation is a member of another combined group), the economic development surcharge can apply only once for the corporation's entire gross tax for its taxable year.

For more information about the economic development surcharge, refer to Publication 400, *Wisconsin's Economic Development Surcharge,* which is available on the Department's web site at www.revenue.wi.gov/html/taxpubs.html#business. Also, for additional information and examples relating to the economic development surcharge for combined group members, see s. Tax 2.82(5) and (6), Wisconsin Administrative Code.

■ **Line T. Estimated Payment Indicator –** If the corporation is not the designated agent and made estimated payments on its own behalf or has a carryover of a previous year's overpayment, you may apply those amounts to the combined return if you complete Part IV. See the instructions for Part IV and check the box next to the letter "T" if Part IV applies.

CAUTION: If you are applying payments or carryovers of overpayments from corporations that are not the designated agent, the Department will not be able to apply these payments unless you check the box on line T and complete Part IV.

■ **Line U. Wisconsin Tax Withheld –** Enter the corporation's Wisconsin tax withheld from pass-through entities, as reported on Wisconsin Schedules 3K-1 or 2K-1. You must include a copy of the Schedule 3K-1 or 2K-1 with the combined return. Also enter the amount of Wisconsin tax withheld from lottery prizes. If this is an amended return, enter the Wisconsin tax withheld reported on the original Form 4M, unless the amount you originally reported was incorrect.

■ **Line V. Refundable Credits –** This is where you report the corporation's refundable credits. In the spaces to the left of line V, enter the 2-digit code corresponding to each refundable credit from the table below, and the amount of credit for each code you listed. (Enter the credit code on the line that looks like "└──┘.") Then enter the total refundable credits on line V.

Most credits must be computed on a Department-prescribed schedule. The table indicates the schedule that must be used to compute the credit and the line number of that schedule that shows the total available credit. You must submit the applicable credit schedule(s) with the combined return.

Codes for Refundable Credits

Code	Credit	Schedule	Line
50	Dairy cooperatives credit	DM	14
51	Dairy manufacturing facility investment credit	DM	13
52	Enterprise zone jobs credit	EC	3
53	Farmland preservation credit	FC FC-A	18 13
54	Film production company investment credit	FP	6
55	Film production services credit	FP	3
56	Food processing and warehouse investment credit	FW	7
57	Meat processing facility investment credit	MP	7
58	Woody biomass harvesting and processing credit	WB	5
59	Beginning Farmer and Farm Asset Owner Credit	FL	6

Any refundable credits in excess of the combined group's tax liability will be refunded to the designated agent.

NOTE: Combined groups are not required to file Schedule CR to summarize their credits. The credit codes on Form 4M replace Schedule CR. For taxable years beginning in 2009, Schedule CR applies only to separate return filers.

For information on how to qualify for credits, see Publication 123, *Business Tax Incentives for 2011* (available on the Department of Revenue's web site at www.revenue.wi.gov/html/taxpubs.html#business). The instructions to each credit schedule may also provide helpful information. You may find these schedules and their instructions on the Department's web site at http://www.revenue.wi.gov/html/formpub.html.

■ **Line W. Total Company Gross Receipts –** Enter the corporation's total "gross receipts from all activities." This 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.

■ **Line X. Total Company Assets –** Enter the corporation's total company assets as reported on the federal return. If the federal return is a consolidated return, enter the total company assets for this corporation as reported for purposes of the consolidated return.

■ **Line Y1. Wisconsin Property –** Enter the total amount of the corporation's real and tangible property located in Wisconsin. 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 the corporation; you do not need to include property you are renting.

■ **Line Y2. Wisconsin Payroll –** Enter the total amount of the company's payroll located in Wisconsin. Include only amounts attributable to employees of the corporation. In the computation of payroll located in Wisconsin, include individuals that satisfy one or more of the following:

- The individual's service is performed entirely in Wisconsin.
- The individual's service is performed in and outside Wisconsin, but the service performed outside Wisconsin is incidental to the individual's service in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and the base of operations of the individual is in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and, if there is no base of operations, the place from which the individual's service is directed or controlled is in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and neither the base of operations of the individual nor the place from which the service is directed or controlled is in any state in which some part of the service is performed, but the individual's residence is in Wisconsin.

■ **Line Z. Total Sales, Receipts, or Premiums –** Enter the corporation's apportionment factor denominator from Form 4A, Part I, column c. If this is a 100% Wisconsin group, you may skip line Z.

Part II: Net Business Loss Carryforward

If the corporation will be using any net business loss carryforwards in this return, you **must** complete Part II to ensure that non-shareable loss carryforwards and shareable loss carryforwards are calculated correctly.

■ **Part II, Lines 1 through 5. Amounts Entered from Part I –** Copy the amounts from Part I, line L1 (plus the amount on line L2, if any), line M, and line N as instructed. The amount you compute on line 5 represents the corporation's Wisconsin net income before any net business loss carryforwards.

■ **Part II, Line 6. Available Non-shareable Net Business Loss Carryforward –** In general, you should enter the amount from Form 4BL, Part II, line 30, column (g). However, if you choose to use less than the total allowable amount of non-shareable net business loss carryforward, enter the amount that you will use. See the Tax Releases in *Wisconsin Tax Bulletin* issues 138 (April 2004) and 139 (July 2004) for more details on using carryforwards of net business losses and credits. You may access the *Wisconsin Tax Bulletin* on the Department's web site at www.revenue.wi.gov/ise/wtb/index.html.

■ **Part II, Line 7. Non-shareable Net Business Loss Carryforward Used –** A corporation's available non-shareable net business loss carryforward in 2011 (line 6) may only be used to the extent of its own Wisconsin net income (line 5).

■ **Part II, Line 9. Available Shareable Net Business Loss Carryforward –** In general, you should enter the amount from Form 4BL, Part II, line 30, column (h). However, if you choose to use less than the total allowable amount of shareable net business loss carryforward, enter the amount that you will use.

■ **Part II, Line 10. Shareable Net Business Loss Carryforward Used –** This is the amount of shareable net business loss carryforward used to offset your own income. This does not include any amounts that are being shared with other combined group members. The amount of shareable net business loss carryforward being shared with other combined group members is reported on line 13.

■ **Part II, Line 11. Remaining Shareable Net Business Loss Carryforward** – This is the amount of shareable net business loss carryforward eligible to be shared with other members of the combined group to offset their remaining current year combined unitary income. The remaining shareable net business loss carryforward amounts for each combined group member shall be aggregated in order to calculate lines 13 and 14 of Form 4M, Part II. A combined group member may elect not to share any of its remaining shareable net business loss carryforward with the other members of the combined group.

■ **Part II, Line 12. Remaining Income** – This is the amount of your remaining income that has not been offset by your non-shareable net business loss carryforward or your shareable net business loss carryforward. The remaining income amounts for each combined group member shall be aggregated in order to calculate lines 13 and 14 of Form 4M, Part II.

No shareable net business losses may be shared with any combined group member whose remaining income on line 12 is zero or less.

■ **Part II, Line 13. Shareable Net Business Loss Carryforward Amount Being Shared With Other Members.** Enter the amount of the shareable net business loss that you are sharing with other combined group members. See the examples for the calculation. The sum of all Form 4M, Part II, line 13 amounts should equal the sum of all Form 4M, Part II, line 14 amounts.

The combined group member's Form 4BL, Part II, column (f) should include the amount that you are sharing with other combined group members since this amount of shareable net business loss is being used up.

■ **Part II, Line 14. Shareable Net Business Loss Carryforward Amount Being Shared With This Member.** Enter the amount of the shareable net business loss that is being shared with this combined group member. See the examples for the calculation. The sum of all Form 4M, Part II, line 13 amounts should equal the sum of all Form 4M, Part II, line 14 amounts.

The following examples illustrate how to determine the shareable net business loss carryforward amounts being shared with other members of the combined group:

Example 1: Combined Group ABCD consists of Member A, Member B, Member C, and Member D. The combined group members' remaining shareable net business loss carryforward amounts and remaining income amounts for 2011 are as follows:

Form 4M Part II	A	B	C	D
Line 11	24,000	16,000	0	0
Line 12	0	0	20,000	5,000

Member A and Member B have no remaining income and have offset all of their own income with their own non-shareable and shareable net business loss carryforward amounts. Member C and Member D still have remaining income after using their own non-shareable and shareable net business loss carryforward amounts.

The amount of shareable net business loss carryforwards being shared between the combined group members are as follows:

Form 4M Part II	A	B	C	D
Line 13	15,000	10,000		
Line 14			20,000	5,000

<u>Line 13 calculation</u>: Member A calculates $15,000 for line 13 (($24,000/$40,000) x $25,000 aggregate remaining income amount) and Member B calculates $10,000 for line 13 (($16,000/$40,000) x $25,000 aggregate remaining income amount).

The shareable net business loss carryforward amounts being shared with other combined group members must be calculated on a prorated basis. The prorated basis is your own remaining shareable net business loss amount divided by the aggregate remaining shareable net business loss amount. This amount is then multiplied by the **lesser** of the aggregate shareable net business loss carryforward amount **or** the aggregate remaining income amount.

After the aggregate shareable net business loss is shared with the other combined group members, the remaining aggregate shareable net business loss is $15,000 ($40,000 - $25,000). The remaining shareable net business loss amounts remain an attribute of the corporation that originally incurred the loss. At the end of 2011, Member A would have a $9,000 ($24,000 - $15,000) shareable net business loss carryforward and Member B would have a $6,000 ($16,000 - $10,000) shareable net business loss carryforward.

<u>Line 14 calculation</u>: Member C calculates $20,000 for line 14 (($20,000/$25,000) x $25,000 aggregate remaining income amount) and Member D calculates $5,000 for line 14 (($5,000/$25,000) x $25,000 aggregate remaining income amount).

The amount of shareable net business loss carryforward being used by each member must be calculated on a prorated basis. The prorated basis is your own remaining income amount divided by the aggregate remaining income amount. This amount is then multiplied by the **lesser** of the aggregate shareable net business loss carryforward amount **or** the aggregate remaining income amount.

Since Member C and Member D only have $25,000 of aggregate remaining income and $40,000 of aggregate remaining shareable net business loss carryforward is available, all of the income of Member C and Member D has been offset.

Example 2: Combined Group ABCD consists of Member A, Member B, Member C, and Member D. The combined group members' remaining shareable net business loss carryforward amounts and remaining income amounts for 2011 are as follows:

Form 4M Part II	A	B	C	D
Line 11	24,000	16,000	0	0
Line 12	0	0	27,000	20,000

Member A and Member B have no remaining income and have offset all of their own income with their own non-shareable and shareable net business loss carryforward amounts. Member C and Member D still have remaining income after using their own non-shareable and shareable net business loss carryforward amounts.

The amount of shareable net business loss carryforwards being shared between the combined group members are as follows:

Form 4M Part II	A	B	C	D
Line 13	24,000	16,000		
Line 14			22,979	17,021

Line 13 calculation: Member A calculates $24,000 for line 13 (($24,000/$40,000) x $40,000 aggregate shareable net business loss amount) and Member B calculates $16,000 for line 13 (($16,000/$40,000) x $40,000 aggregate shareable net business loss amount).

The shareable net business loss carryforward amounts being shared with other combined group members must be calculated on a prorated basis. The prorated basis is your own remaining shareable net business loss amount divided by the aggregate remaining shareable net business loss amount. This amount is then multiplied by the **lesser** of the aggregate shareable net business loss carryforward amount **or** the aggregate remaining income amount.

After the aggregate shareable net business loss is shared with the other combined group members, the remaining aggregate shareable net business loss is $0 ($40,000 - $40,000). The remaining shareable net business loss amounts remain an attribute of the corporation that originally incurred the loss. At the end of 2011, Member A would have $0 ($24,000 - $24,000) and Member B would have $0 ($16,000 - $16,000) shareable net business loss carryforwards.

Line 14 calculation: Member C calculates $22,979 for line 14 (($27,000/$47,000) x $40,000 aggregate shareable net business loss amount) and Member D calculates $17,021 for line 14 (($20,000/$47,000) x $40,000 aggregate shareable net business loss amount).

The amount of shareable net business loss carryforward being used by each member must be calculated on a prorated basis. The prorated basis is your own remaining income amount divided by the aggregate remaining income amount. This amount is then multiplied by the **lesser** of the aggregate shareable net business loss carryforward amount **or** the aggregate remaining income amount.

For tax year 2011, Member C would have taxable income of $4,021 ($27,000 - $22,979) and Member D would have taxable income of $2,979 ($20,000 - $17,021).

Part III: Nonrefundable Credits

If the corporation is using nonrefundable credits, you **must** complete Part III to ensure that sharable credits and non-sharable credits are properly accounted for.

■ **Part III, Line 1. Summary of Available Nonrefundable Credits –** In the spaces to the left of line 1, enter the 2-digit code corresponding to each available credit from the table below, and the amount of available credit for each code you listed. (Enter the credit code on the line that looks like "└──┘.") Then enter the total available nonrefundable credits on line 1.

Most credits must be computed on a Department-prescribed schedule. The table indicates the schedule that must be used to compute the credit and the line number of that schedule that shows the total available credit. You must submit the applicable credit schedule(s) with the combined return.

NOTE: Combined groups are not required to file Schedule CR to summarize their credits. The credit codes on Form 4M replace Schedule CR. For taxable years beginning in 2009, Schedule CR applies only to separate return filers.

Codes for Nonrefundable Credits

Code	Credit	Schedule	Line
01	Community development finance credit	None	None
02	Community rehabilitation program credit	CM	5
03	Dairy and livestock farm investment credit	DI	9
04	Development zones credit	DC	7, 15, 23
05	Development zones day care credit carryforward	None	None
06	Development zones environmental remediation credit carryforward	None	None
07	Development zones jobs credit carryforward	None	None
08	Development zones location credit carryforward	None	None
09	Development zones research credit carryforward	None	None
10	Development zones sales tax credit carryforward	None	None
11	Early stage seed investment credit	VC	12
12	Economic development credit	ED	5
13	Ethanol and biodiesel fuel pump credit	EB	7
14	Film production company investment credit certified under 2008 law	FP	8
15	Film production services certified under 2008 law – nonrefundable portion	FP	7
16	Health insurance risk-sharing plan assessments credit	HI	6
17	Internet equipment credit	IE	5
18	Jobs tax credit	JT	5
19	Manufacturer's sales tax credit carryforward	MS	3
20	Manufacturing investment credit	MI	6
21	Postsecondary education credit	PE	7
22	Research expense credit	R	30
23	Research expense credit for activities related to certain energy efficient products	R-2	29
24	Research expense credit for activities related to internal combustion engines	R-1	29
25	Research facilities credit	R	34
26	Research facilities credit for activities related to certain energy efficient products	R-2	33
27	Research facilities credit for activities related to internal combustion engines	R-1	33
28	Super research and development credit	R	42
29	Supplement to the federal historic rehabilitation credit	HR	7
30	Technology zone credit	TC	8
31	Water consumption credit	WC	10

If you are claiming more than one credit, you must claim the credits in a specific order. The order in which you may claim the credits is per sec. 71.30(3), Wis. Stats.

For information on how to qualify for credits, see Publication 123, *Business Tax Incentives for 2011* (available on the Department of Revenue's web site at www.revenue.wi.gov/html/taxpubs.html#business). The instructions to each credit schedule may also provide helpful information. You may find these schedules and their instructions on the Department's web site at http://www.revenue.wi.gov/html/formpub.html.

■ **Part III, Line 2. Gross Tax –** Enter the gross tax from Part I, line Q as instructed.

■ **Part III, Line 3. Credit Used by Member –** If you want the corporation to use as much of its available nonrefundable credits as possible for the taxable year, enter the lesser of line 1 or 2. If you choose to use less than the total allowable amount of nonrefundable credits, enter the amount that you will use.

See the Tax Releases in *Wisconsin Tax Bulletin* issues 138 (April 2004) and 139 (July 2004) for more details on using carryforwards of credits and net business losses. You may access the *Wisconsin Tax Bulletin* on the Department of Revenue's web site at http://www.revenue.wi.gov/ise/wtb/index.html.

■ **Part III, Line 4. Sharing of Research Credits –** If the available credits on line 1 include one or more research credits, and those credits are still available after the corporation accounts for the credits used on line 3, the corporation may choose to share the remaining research credits with the other combined group members.

Complete Form 4CS, *Sharing of Research Credits for Combined Group Members*, to determine the amount that may be shared. Enter the shared amount on line 4. "Research credits" include:

- Research expense credits (Schedules R, R-1, and R-2)
- Research facilities credits (Schedules R, R-1, and R-2)
- Development zones research credit carryforward

See the Form 4CS instructions for further details on sharing research credits.

CAUTION: The amount of credit available for carryforward to 2012 must be reduced by the total amount on line 5.

Part IV: Member-Level Payment Data

Generally, the designated agent must make estimated payments on behalf of the entire group. Section Tax 2.66, Wisconsin Administrative Code, provides three exceptions under which members are allowed to make their own estimated payments:

- For the first taxable year for which a combined group files a combined return,
- For the first taxable year for which a corporation is a member of a combined group, or
- If the payments relate to separate entity items.

Corporations that made their own estimated payments, or have carryovers of previous overpayments, complete Part IV to apply those amounts to the combined return.

NOTE: You do not need to complete Part IV on the designated agent's Form 4M.

■ **Part IV, Line 1. Overpayment from Previously Filed Returns –** If the corporation had an overpayment on its 2010 return (or a previous year's return) and chose to credit the amount to 2011 estimated tax, enter the total overpayment credit on line 1.

■ **Part IV, Line 2. Estimated Payments Made on Separate Entity Basis –** If the corporation made estimated payments on its own behalf for the period included in the combined return, enter the date and amount of each payment made and enter the total of those payments on line 2. Do not enter any payment amounts that have already been applied or refunded.

■ **Part IV, Line 3. Total to Include on Form 4, Line 29 –** The sum of each applicable member's amount on Part IV, line 3, plus the designated agent's estimated payments and overpayment credits (not required to be reported on Form 4M), should equal the estimated payments reported on Form 4, line 29.

Additional Information and Assistance

Web Resources. The Department of Revenue has a web page dedicated to combined reporting issues located at http://www.revenue.wi.gov/combrept/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

Instructions for 2011 Form 4R: Federal Taxable Income Reconciliation for Wisconsin Combined Groups

Purpose of Form 4R

Combined groups must use Form 4R to reconcile federal taxable income from the federal consolidated return (or federal separate returns, as appropriate) to the amount on line 1 of the combined return (Form 4).

Combined groups also use Form 4R to make the controlled group election and to make certain adjustments relating to intercompany transactions and limitations that apply at the combined group level.

The combined group files only one Form 4R with its combined return. Every combined return must include a Form 4R. Form 4R is not considered complete unless all of the required attachments are submitted, as explained throughout these instructions.

Line-by-Line Instructions

CAUTION: You must complete Form 4R before you complete line 1 of the combined Form 4.

These instructions are presented in the order the lines appear on Form 4R:

Part I: General Information and Consolidated Returns

■ **Line 1. Controlled Group Election** – Check the box if the group wishes to make the controlled group election. If you check "Yes," you must attach a statement which provides all of the following:

- A list of every corporation in the commonly controlled group.
- A statement that each corporation has agreed to be bound by the election.
- A statement that the election shall apply to any member that subsequently enters the group.

Following is an explanation of what the controlled group election does and the requirements for the election:

What the Controlled Group Election Does. If a group makes the controlled group election, the entire commonly controlled group is deemed to be engaged in a single unitary business, regardless of whether the companies are actually engaged in a unitary business. Additionally, all income of the commonly controlled group is considered to be apportionable income of that unitary business.

The controlled group election is binding for the taxable year it is elected and for the next nine taxable years.

NOTE: The controlled group election may simplify combined return filing because it eliminates the need to determine which corporations are engaged in the unitary business (Test 2). The controlled group election does not have any effect on the commonly controlled group (Test 1) or on water's edge (Test 3). The election applies for a ten-year period.

Requirements for Controlled Group Election. Any commonly controlled group is eligible to make the controlled group election, provided it is timely made. To be effective for the taxable year 2011, the election must be made on a timely filed 2011 Form 4R. A return filed under extension is considered timely filed.

In order for the election to be effective, the return must include an attached statement as described in the instructions for line 1.

Section Tax 2.63, Wisconsin Administrative Code, provides more information about the continuity of the controlled group election, including rules that apply in cases of corporate reorganizations.

■ **Line 2. Commonly Controlled Corporations Not in Combined or Consolidated Group –** Check the appropriate box to indicate whether there are companies in the commonly controlled group that are in neither the combined return nor the federal consolidated return.

■ **Line 3. Commonly Controlled Corporations Not in Combined or Consolidated Group –** If you checked "yes" for line 2, submit a supporting schedule to identify the name and identification number of each applicable company that is in neither the combined return nor the federal consolidated return.

■ **Line 4. Federal Net Income of Companies Described on Line 2 –** Enter the total net income, as reported for federal income tax purposes, of all companies identified in the supporting schedule you prepared for line 3.

■ **Line 5. Gross Sales of Companies Described on Line 2 –** Enter the total gross sales that correspond to the income amount on line 4. Don't include sales that were not includable in federal gross income.

■ **Lines 6a through 6d. Net Income from Federal Consolidated Return –** Special instructions may apply in cases where there is more than one federal consolidated group in the combined group:

Differing Taxable Years. In general, the combined return will use the same taxable year as the federal consolidated return. However, if there is more than one federal consolidated return and the consolidated returns use differing taxable years, the information you enter on lines 6a through 6c should be for the taxable year that is included in this combined return. Generally, this is the taxable year that ended during the combined group's taxable year.

If a federal consolidated group uses a different taxable year than the rest of the combined group and you chose to include those members' income in this return by preparing a separate income statement for the months included in the combined group's taxable year, then prepare a separate income statements for all members of that federal consolidated group and include the total from those separate income statements on line 6.

More Than Three Federal Consolidated Groups. If there are more than three federal consolidated groups in the combined group, enter the information for the two largest federal consolidated groups on lines 6a and 6b, respectively. Then prepare a separate schedule to identify the remaining federal consolidated groups and their amounts from Form 1120, line 28. On line 6c, enter the sum of the Form 1120, line 28 amounts from the separate schedule and enter "See attached" on the line for Parent Company Name.

Part II: Corporations in Combined Group Which Are Not in Federal Consolidated Return

■ **Line 7. Corporations with Less Than 80% Common Ownership –** Identify any companies that are in the combined group but are not included in a federal consolidated return because they do not meet the 80% ownership test required to file a federal consolidated return. Ignore foreign corporations since those are accounted for on line 8. On a separate schedule, list each of the companies you identified, its federal employer identification number (FEIN), and federal taxable income from Form 1120, line 28 or from whichever federal form applies to the corporation. Enter the total federal taxable income of these companies on line 4.

■ **Line 8. Foreign Corporations –** Identify any companies that are in the combined group but are not included in a federal consolidated return because they are foreign corporations. On a separate schedule, list each of those companies, its federal employer identification number (FEIN), and federal taxable income.

Include all income that is effectively connected with the conduct of a trade or business in the United States, plus any other U.S. source income. For federal purposes, these amounts may have been reported on Form 1120-F or they may have been amounts for which federal income tax was withheld by the payer. Enter the total of these federal taxable income amounts on line 8.

NOTE: If federal income was reduced by provisions of a federal treaty, enter the amount after applying the provisions of the federal treaty. If a federal treaty reduced the federal tax rate, include the entire amount of federal income, including the income to which the reduced rate applied.

■ **Line 9. Other Corporations Not in Consolidated Group –** Identify any companies not included on lines 7 or 8 that are in the combined group but are not included in a federal consolidated return. On a separate schedule, list each of those companies, its federal employer identification number (FEIN), and federal taxable income, and explain why the company is not includable in a federal consolidated return. Enter the total federal taxable income of these companies on line 9.

Part III: Subtotal

Part III reverses out amounts included in the federal taxable incomes in Parts I and II that must be accounted for by treating the entire combined group as a single corporation. For the items you reverse out in Part III, you will recompute them later in Part V by treating the combined group as a single corporation.

For lines 12 and 14, you do not need to separately identify the companies to which the amounts relate.

■ **Line 12. Net Capital Gain –** Enter the total of the net capital gains reported on the consolidated return(s) shown on line 6 and on the separate federal returns for any companies included on lines 7, 8, and

9. Generally, these amounts are on line 8 of Form 1120 or 1120-F.

■ **Line 14. Charitable Contributions, Net Section 1231 Losses, Involuntary Conversions –** Enter the sum of the charitable contributions deduction, net section 1231 losses, and losses from involuntary conversions reported on the consolidated return(s) shown on line 6 and on the separate federal returns for any companies included on lines 7, 8, and 9. Charitable contributions are generally on line 19 of Form 1120 or 1120-F. Section 1231 losses and losses from involuntary conversions are generally accounted for on federal Form 4797.

Part IV: Corporations in Federal Consolidated Return Which Are Not Combined Group Members

To complete Part IV, identify all companies included in the federal consolidated return(s) on line 6 that aren't includable in the combined group.

For each company you identify, determine its "separate taxable income" as computed for federal income tax purposes under Treas. Reg. §1.1502-12. That is, determine its federal taxable income without regard to any items that had to be accounted for at the consolidated group level, such as capital gains and losses, section 1231 gains and losses, involuntary conversions, and charitable contributions. The separate taxable income amounts are what you will enter on lines 16, 18, and 19, as applicable.

■ **Line 16. Corporations Not Engaged in the Combined Group's Unitary Business –** On a separate schedule, list each of those companies, its federal employer identification number (FEIN), and federal separate taxable income. Enter the total of the federal separate taxable incomes on line 16.

CAUTION: If the group made the controlled group election, do not enter any amounts on line 16 and skip line 17. Under the controlled group election, all corporations in the commonly controlled group are considered to be engaged in the same unitary business.

■ **Line 17. Indicator for Unitary in Another State –** Are any of the companies that have an amount on line 16 included in a combined ("unitary") return in another state because the corporation is part of the unitary business under that state's law? Do not count states where you made an election similar to the controlled group election where all companies in a commonly owned or controlled group elect to file a combined return regardless of whether they are in a common unitary business.

Check the appropriate box. If you checked "Yes," explain on an attached statement why the corporation was included in that other state's combined return but not in this combined return.

■ **Line 18. Corporations Not in the Combined Group Under Water's Edge Rules –** Identify any companies included in the federal consolidated return(s) that are *completely* excluded from the combined group under the water's edge rules, but do not include companies already accounted for on line 16. On a separate schedule, list each company excluded under the water's edge rules, its federal employer identification number (FEIN), and federal separate taxable income. Enter the total of the federal separate taxable incomes on line 18.

Following is an explanation of the water's edge rules as they apply to line 18:

Water's Edge Rules in General. The water's edge rules are explained in s. Tax 2.61(4), Wisconsin Administrative Code. In part, these rules provide that if a foreign (non-U.S.) or domestic (U.S.) corporation is an "80/20 corporation," it may be excluded from a combined group even if it is otherwise part of the group's unitary business.

The water's edge rules also provide that for some corporations, only part of their income from the unitary business is includable in the combined unitary income, with the remainder accounted for on a separate entity basis. The instructions for Form 4N, *Wisconsin Nonapportionable and Separately Apportioned Income*, describe these aspects of the water's edge rules in more detail.

NOTE: If a combined group member has some income that is includable in combined unitary income and some that is excluded under the water's edge rules, do not report the excluded amount on Form 4R, line 18. Instead, report the excluded amount on Form 4N, line 7.

Qualifying as an "80/20 Corporation." A corporation is considered to be an "80/20 corporation" if 80 percent or more of its worldwide gross income during the taxable year that would otherwise be includable in the combined return is "active foreign business income" as defined in section 861(c)(1)(B) of the Internal Revenue Code. An 80/20 corporation may be either a foreign corporation or a domestic corporation, as long as it meets the active foreign business income test.

Under section 861(c)(1)(B) of the Internal Revenue Code, "active foreign business income" means gross income which is both:

1. Derived from sources outside the United States, as determined under subchapter N of the Internal Revenue Code, and
2. Attributable to the corporation's active conduct of a trade or business in a foreign country or possession of the United States.

For special rules regarding the 80/20 test as it relates to parent-subsidiary chains, disregarded entities, and part-year group members, see s. Tax 2.61(4)(b), Wisconsin Administrative Code.

Line 18 for Foreign 80/20 Corporations. If an 80/20 corporation is a foreign corporation, then it is not a member of the combined group unless it elected to be included in a consolidated return for federal purposes. If a foreign 80/20 corporation was not included in a federal consolidated return, you do not have to account for it on line 18.

CAUTION: If a foreign 80/20 corporation is not a member of the combined group, do not enter its income on line 18 since it was not included in a federal consolidated return to begin with.

If a foreign 80/20 corporation elected to be included in a consolidated return for federal purposes, it is treated in the same way as a domestic 80/20 corporation, described next.

Line 18 for Domestic 80/20 Corporations. If a domestic corporation is an 80/20 corporation, then its income includable in the combined unitary income is limited to only U.S. source income as provided in sections 861 through 865 of the Internal Revenue Code. Further, that U.S. source income must be of one of the following types to be included in combined unitary income:

1. Interest income or income generated from intangible property, regardless of who the payer is.
2. Income derived from interest or intangible expenses of other combined group members, to the extent not already included in 1. above.
3. Dividends from a real estate investment trust (REIT) that is not a "qualified REIT" under sec. 71.22(9ad), Wis. Stats.
4. Gains or losses derived from the sale or lease of real or personal property located in the United States.

The expenses attributable to these types of income, including an allocated share of indirect expenses, are also includable in combined unitary income.

The water's edge rules for domestic 80/20 corporations, summarized above, are specifically provided in sec. 71.255(2)(d), Wis. Stats., and s. Tax 2.61(4)(d)2., Wisconsin Administrative Code. In the statute, the term "consolidated foreign operating corporation" is used to describe a domestic 80/20 corporation. The terms "domestic 80/20 corporation" and "consolidated foreign operating corporation" have the same meaning.

If a domestic 80/20 corporation (or a foreign 80/20 corporation that elects to be included in a federal consolidated return) does not have U.S. source income of the types described in 1. through 4. above, it is not a combined group member. Include its federal separate taxable income on line 18.

■ **Line 19. Other Corporations Not in the Combined Group –** Identify any companies you didn't account for on lines 16 or 18 that are in a federal consolidated group but not the combined group. On a separate schedule, list each of those companies, its federal employer identification number (FEIN), and federal separate taxable income, and explain why the company is not includable in the combined group. Enter the total federal separate taxable income of these companies on line 19.

Part V: Adjustments Based on Limitations in Federal Law

The amount on line 21 represents the total federal taxable income of the combined group, before capital gains and losses, section 1231 gains and losses, involuntary conversions, and charitable contributions. This amount may also include adjustments for deferred intercompany transactions under Treas. Reg. §1.1502-13.

In Part V, you will adjust this amount so that certain federal limitations apply to the combined group as a whole, in the same way they would apply to a federal consolidated group.

■ **Line 22. Adjustment for Intercompany Deferrals –** On line 22 you will apply the provisions of Treas. Reg. §1.1502-13 so that intercompany transactions between members of the combined group are treated the same way as between members of a consolidated group for federal purposes.

Compute the amount on line 22 as follows:

1. For companies included in **both** the combined group and a federal consolidated group, reverse out the effect of adjustments you've already computed under Treas. Reg. §1.1502-13 for purposes of the federal return.
2. For all companies in the combined group, compute adjustments under Treas. Reg. §1.1502-13 as if the combined group is a federal consolidated group.
3. Compute the sum of the amounts derived from 1. and the ordinary income/loss items from 2., and enter the result on line 22.

Following are specific instructions for computing the amounts in these steps:

Step 1: Reverse Intercompany Adjustments for Federal Consolidated Group. If you had to compute intercompany adjustments under Treas. Reg. §1.1502-13 for purposes of the federal consolidated return and those adjustments are included in the amount on line 21, then include on line 22 an amount to offset those adjustments. This amount may be either positive or negative.

CAUTION: You may have already reversed out intercompany transactions in Part III if they consisted of capital gains, net section 1231 losses, or losses from involuntary conversions, or in Part IV if they were for companies that aren't combined group members. Do not double-count these items when you compute line 22.

Step 2: Compute Intercompany Adjustments for Combined Group. Identify any transactions that took place between members of the combined group and compute adjustments to defer income, gain, or loss between those members in the same manner as prescribed for members of consolidated groups under Treas. Reg. §1.1502-13.

In general, Treas. Reg. §1.1502-13 provides that income, deduction, gain, or loss on transactions between members of a consolidated group is deferred so that these transactions do not affect the combined group's income as a whole. As an example, assume Corporations S and B are in a federal consolidated group. In Year 1, S sells land with a basis of $50,000 to B for $80,000. Under Treas. Reg. §1.1502-13, in Year 1, you would make an adjustment to exclude S's $30,000 gain from the group's income.

However, any gain that you defer you must recognize when a triggering event occurs. For Wisconsin purposes, all of the following are triggering events:

- The buyer resells the object of the deferred intercompany transaction to an entity that is not a member of the combined group,
- The object of the deferred intercompany transaction is used outside the combined group's unitary business as a result of the buyer's resale, conversion, or transfer of the asset, or
- The buyer and seller are no longer members of the same combined group.

Continuing the previous example, assume in Year 3, B sells the land to P, an unrelated party, for $90,000. In Year 3, you would make an adjustment to recognize S's $30,000 deferred gain from Year 1 in addition to the $10,000 of gain that B recognized on the sale to P.

However, since Wisconsin did not recognize Treas. Reg. §1.1502-13 for taxable years beginning before January 1, 2009, do not make adjustments to recognize gains or losses deferred under Treas. Reg. §1.1502-13 that were incurred in taxable years beginning before January 1, 2009.

NOTE: Do not make adjustments to recognize amounts under Treas. Reg. §1.1502-13 if the deferred gain or loss was incurred in a taxable year beginning before January 1, 2009.

See Treas. Reg. §1.1502-13 for more details and examples of how to compute adjustments for various types of intercompany transactions.

Step 3: Completing Line 22. For the intercompany adjustments you computed in Step 2, separate the amounts into ordinary income/loss items and capital gain/loss items (including section 1231 gains and losses and gains and losses from involuntary conversions).

Combine the amount you computed in Step 1 with the ordinary income/loss items you computed in Step 2. If the net effect is a reduction in the combined group's income, enter the amount on line 22 as a negative number. If the net effect is an increase in the combined group's income, enter the amount on line 22 as a positive number.

For the capital gain/loss items, you will include those in the computation of line 23 and report them on line 23 or 24, as applicable.

■ **Line 23. Recomputed Net Capital Gain –** Line 23 is generally computed by applying the capital loss limitation to the group as a whole in the same manner it would apply to a federal consolidated group under Treas. Regs. §1.1502-22 and 1.1502-23.

To compute the amount on line 23, complete a separate federal Schedule D, *Capital Gains and Losses*, and the federal schedules referenced in Schedule D, including Form 4797, *Sales of Business Property*, and Form 4684, *Casualties and Thefts*, where applicable, as if the Wisconsin combined group is a federal consolidated group, but with two important exceptions:

1. Do not include any net capital loss carryovers that are non-sharable losses.
2. Do not include any gain or loss amounts that aren't includable in combined unitary income.

Each of these exceptions is described in detail below. If the computation on the federal Schedule D for the combined group results in a net capital gain, enter that net capital gain as a positive amount on line 23. Submit a copy of your recomputed federal Schedule D, Form 4797, and Form 4684, as applicable, with your return.

Non-sharable Losses. Non-sharable capital losses that cannot be included in the computation of line 23 are those that originated:

- In a taxable year beginning before January 1, 2009, or
- In the combined unitary income of another combined group, or
- In transactions that were reportable on a separate entity basis.

The rules which characterize a net capital loss as sharable or non-sharable are the same as those that characterize a net business loss as sharable or non-sharable. For special rules that apply in cases of subgroups and a corporation's options regarding sharable losses, see s. Tax 2.61(9), Wisconsin Administrative Code.

CAUTION: Do not include net capital loss carryovers from taxable years beginning before 2009 in the computation of the group's net capital gain on line 23.

Combined group members that have non-sharable capital loss carryovers may still use those carryovers to offset their share of the combined group's net capital gain. Those members should use Wisconsin Form 4CL, *Net Capital Loss Adjustments for Combined Group Members*, to claim their non-sharable capital loss carryovers. See the Form 4CL instructions for details.

Alternatively, a combined group member may choose to carry back a non-sharable capital loss carryover to a taxable year beginning before 2009 to the extent allowed under section 1212 of the Internal Revenue Code.

Gain or Loss Amounts Not Includable in Combined Unitary Income. A combined group member's capital gains and losses, section 1231 gains and losses, or gains and losses from involuntary conversions may not be includable in combined unitary income because they are attributable to a separate unitary business or because they are excluded under the water's edge rules.

In either case, instead of including these items in the computation of the group's net capital gain on line 23, report them separately for that member when you complete Part II of that member's Form 4N, *Wisconsin Nonapportionable and Separately Apportioned Income*. See the Form 4N instructions for details.

NOTE: If a combined group member's capital gains and losses, section 1231 gains and losses, or gains and losses from involuntary conversions are not includable in combined unitary income, report them on Part II of Form 4N, not on Form 4R.

■ **Line 24. Sum of Recomputed Charitable Contributions, Net Section 1231 Losses, Losses from Involuntary Conversions –** Enter the sum of the charitable contributions deduction and deductions for net section 1231 losses and involuntary conversions, as applicable, applying limitations at the combined group level. Enter as a negative amount. Further details are shown below:

Charitable Contributions. Determine the charitable contributions deduction under Treas. Reg. §1.1502-24 as if the combined group is a federal consolidated group. Unlike net capital loss carryovers, unused charitable contribution deduction carryovers may be applied at the group level even if they were incurred in a taxable year beginning before 2009, as long as the carryover period has not expired.

Net Section 1231 Losses and Losses from Involuntary Conversions. If the computations on the federal Forms 4797 and 4684 prepared as described in the instructions for line 23 result in a net section 1231 loss, a loss from involuntary conversions, or both, include those losses on line 24.

■ **Line 25. Other Adjustments Based on Federal Law –** Use line 25 to report any other adjustments that are necessary to reconcile the federal taxable income computed through line 24 and the federal taxable income reportable on Form 4, line 1.

CAUTION: On line 25, do not include Wisconsin modifications that should be reported on Schedule V or Schedule W, or separately reportable items that should be reported on Form 4N.

If there are adjustments reported on line 25, on a separate schedule list the name and federal employer identification number (FEIN) of each company with an amount included on line 25, the amount of adjustment for that company, and explain why the adjustment is necessary.

Additional Information and Assistance

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- 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

Instructions for 2011 Form 4U: Underpayment of Estimated Tax by Corporations

Purpose of Form 4U

Corporations, combined groups, and tax exempt organizations required to file Form 4T use Form 4U to determine if they are subject to interest for underpayment of estimated tax and, if so, the amount of interest. A corporation, combined group, or exempt organization may be subject to underpayment interest if the total of its tax and economic development surcharge for its taxable year beginning in 2011 is $500 or more.

Form 4U is also used to compute both extension and delinquent interest whenever the tax due is not paid within 2½ months after the end of the taxable year.

If this is a combined return, prepare only one Form 4U for the entire combined group. Section Tax 2.66(3), Wisconsin Administrative Code, provides that the combined group is generally treated as a single corporation for purposes of determining required estimated payments and underpayment interest.

Required Estimated Payments

Required installments differ for large and small corporations. A "small" corporation is a corporation (or combined group) having 2011 Wisconsin net income of less than $250,000. A "large" corporation is a corporation (or combined group) having 2011 Wisconsin net income of $250,000 or more. On Form 5S, net income is the amount on line 3.

NOTE: Since a combined group is treated as a single corporation, a "large" corporation includes a combined group for which the combined group's total Wisconsin net income on Form 4, line 18 is $250,000 or more.

Required installments for **small** corporations are based on the smaller of:

1. 90% of 2011 Wisconsin net tax,
2. 90% of the 2011 Wisconsin net tax figured by annualizing income, as computed in Part III of Form 4U, or
3. 100% of 2010 Wisconsin net tax, provided the 2010 return covered an entire 12-month period.

For combined groups for the taxable year 2011, the computation based on 100% of 2010 net tax doesn't apply unless all members of the combined group filed a 2010 Wisconsin return that covered an entire 12-month period. See s. Tax 2.66(3)(f), Wisconsin Administrative Code, for details.

Required installments for **large** corporations are based on the smaller of:

1. 90% of 2011 Wisconsin net tax, or
2. 90% of the 2011 Wisconsin net tax figured by annualizing income, as computed in Part III of Form 4U.

Line-by-Line Instructions

Following are instructions which explain the parts of Form 4U in the order they appear on the form:

Part I: Computation of Underpayment and Interest Due

■ **Line 1a. 2011 Tax –** Enter the amounts from 2011 Form 4, line 24 plus line 25; Form 4T, line 24 plus line 25; Form 5, line 11 plus line 12; or Form 5S, line 8 plus line 10.

■ **Line 1b. 2011 Refundable Credits and Withholding –** Enter your refundable credits and withholding from 2011 Form 4, line 30 plus line 31; Form 4T, line 30 plus line 31; Form 5, line 17 plus line 18; or Form 5S, line 15.

NOTE: You do not have to complete lines 3a and 3b unless the taxpayer qualifies to base its estimated payments on 100% of 2010 net tax. See *Required Estimated Payments* in the previous column.

■ **Line 3a. 2010 Tax –** If this is not a combined return, enter the amounts from 2010 Form 4, line 16 plus line 17; Form 4T, line 21 plus line 22; Form 5, line 10 plus line 11; or Form 5S, line 8 plus line 10.

If this is a combined return and the group qualifies to base its estimated payments on 100% of 2010 net tax, enter on line 3a the sum of all members' amounts on 2010 Form 4, line 16 plus line 17; Form 4T, line 21 plus line 22; or Form 5, line 10 plus line 11; as applicable.

■ **Line 3b. 2010 Refundable Credits and Withholding –** If this is not a combined return, enter your refundable credits and withholding from 2010 Form 4, line 22 plus line 23; Form 4T, line 27 plus line 28; Form 5, line 16 plus line 17; or Form 5S, line 15.

If this is a combined return and the group qualifies to base its estimated payments on 100% of 2010 net tax, enter on line 3b the sum of all members' amounts on 2010 Form 4, line 22 plus line 23; Form 4T, line 27 plus line 28; Form 5, line 16 plus line 17; or Form 5S, line 15; as applicable.

■ **Line 4. Total Required Estimated Payments –** If you didn't complete line 3 because you don't qualify to base required estimated payments on 100% of 2010 net tax, enter the amount from line 2.

■ **Line 5. Installment Due Dates –** If this is a combined return, the "taxable year" means the taxable year shown on the front of the combined Form 4, even if some combined group members are on a different taxable year. If this is a short period return, special rules apply. See s. Tax 2.89, Wisconsin Administrative Code, for details.

■ **Line 7. Payments Made on or Before Due Date –** In each column, enter the total payments made on or before the installment due date shown but after the previous installment due date. Include any carryovers of overpayments from prior years, but do not include the same overpayment in more than one column.

If you had any tax withheld on your behalf from pass-through entities or from a Form W-2G during the taxable year, also include 25% of that withholding in each column.

If this is a combined return and group members other than the designated agent are applying payments to this return, enter the total of all combined group members' amounts that apply to that column. Then, you must identify those payments and carryovers separately for each combined group member (except the designated agent) when you file Form 4M, *Wisconsin Combined Group Member-Level Data*. See the Form 4M instructions for details.

CAUTION: If multiple corporations made estimated payments applicable to the same combined return, you must separately identify those payments on Form 4M.

■ **Line 10. Carryback of Overpayment or Late Payment –** Complete line 10 only if you have an overpayment on line 9 for one or more installment periods. The overpayment may be carried back to prior installment periods and offset against an underpayment for such periods. If you use overpayments from more than one installment period to offset an underpayment of one period, fill in separately on line 10 each carryback used to offset the underpayment.

If this is a combined return and the amounts on line 9 include payments from more than one corporation, complete line 10 as if the combined group is a single corporation.

■ **Line 11. Carryforward of Overpayment –** Any overpayment remaining after completing line 10 should be carried forward to the next period.

■ **Line 13. Number of Days Until Carryback Paid –** Complete this line only if there is a carryback amount reported on line 10. If the amount you carried back includes more than one payment (for example, payments from multiple combined group members if this is a combined return), skip line 13 and see the instructions to line 15.

■ **Line 15. Interest on Late Payments Carried Back –** If you have an amount on line 13, compute interest at 12% per year for the number of days on line 13. Use a 365-day year.

If you don't have an amount on line 13 because you carried back more than one payment, use a separate schedule to compute the interest on each payment carried back. Use the worksheet at the end of these instructions to prepare that schedule, or prepare your own schedule using the worksheet as a model. Enter the total on line 15, and submit the schedule with your return.

■ **Line 17. Interest through Unextended Due Date –** If you do not have a balance due after 2½ months after the close of your taxable year, enter the amount from line 17 on your franchise or income tax return. Otherwise, enter the amount from line 17 on Part II, line 22, and complete the rest of Part II.

Part II: Computation of Total Amount Due

Complete Part II only if your return is not filed by the unextended due date and shows a balance due.

■ **Line 20. Total Amounts Applied –** Enter the total estimated tax payments made, plus any withholding and refundable credits for the taxable year.

■ **Line 24. Late Return Interest –** Tax not paid by the original unextended due date is subject to interest at 18% per year on 90% and at 12% on 10% during the extension period of the return. Underpayment interest not paid by the original unextended due date is subject to 18% per year during the extension period. After the extension period, all remaining tax and underpayment interest due is charged interest at 18% per year.

On line 24, column a, enter the amount of interest computed at 18% per year, for the number of days between the unextended due date and the date the return is filed, on the amount on line 23, column a.

On line 24, column b, enter the amount of interest computed at 12% per year for the number of days between the unextended due date and the extended due date on the amount on line 23, column b, plus the amount of interest computed at 18% per year for the number of days between the extended due date and the date the return is filed on the amount on line 23, column b.

■ **Line 25a. Late Filing Penalty and Fee –** The "net tax due" is the total tax and economic development surcharge less any allowable credits, withholding, and estimated payments that were made by the extended due date of the return.

NOTE: For combined returns, the late filing fee is $150 for the combined group as a whole, regardless of the number of members.

Part III: Annualized Income Installment Method

Complete this worksheet if you compute one or more installments under the annualized income installment method.

If this is a combined return and you are using the annualized income installment method, use one worksheet for the entire combined group.

■ **Lines 27 through 29. Annualized Wisconsin Net Income –** On line 27, do not include items which remain constant from period to period, such as net business loss carryforwards and amortization of adjustments for changes in method of accounting. Instead, enter those items on line 30, columns a through d, in total.

Exception for Tax Exempt Organizations. For tax-exempt organizations that file Form 4T or are included in a combined return to report unrelated business taxable income, you must modify the annualization period and annualization factor. Instead of using the amounts shown on the form, use the following amounts:

	(a)	(b)	(c)	(d)
Annualization Period	First 1 month	First 4 months	First 7 months	First 10 months
Annualization Factor	12	3	1.714	1.2

If a combined group includes a tax exempt organization, use the above amounts only for the tax exempt organization's Wisconsin net income.

■ **Line 30. Adjustments –** This is where you enter the items you could not include in line 27 because they remain constant from period to period, such as net business loss carryforwards and amortization of adjustments for changes in method of accounting.

■ **Line 35. Economic Development Surcharge –** If this is a combined return, compute the economic development surcharge separately for each company in the group based on its annualized gross tax on line 32.

CAUTION: In the computation of required installments, combined groups must compute the economic development surcharge separately for each company in the group.

(See the next page for the worksheet for line 15)

Worksheet for Line 15:

Interest on Carryback of Multiple Payments to the Same Installment Due Date

	(a) Payment amount carried back	(b) Date the amount in column (a) was paid	(c) By how many days is the date in column (b) after the installment due date?	(d) Interest at 12% on amount in column (a) for number of days in column (c)
Totals				
	(Column (a) total should equal amount on line 10 for the installment to which this worksheet applies)			(Enter Column d total on line 15 for the installment to which this worksheet applies)

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Instructions for 2011 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.
- Bonds issued by the Wisconsin Housing and Economic Development Authority to provide loans to a public affairs network

■ **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 2011 return. In the case of a combined group, enter the total amount of these credits computed by all combined group members on the 2011 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.

- Beginning farmer and farm asset owner credit (Sch. FL, line 2 or 6 or 6b)
- Community development finance credit (Sch. CR, line 41)
- Community rehabilitation program credit (Sch. CM, line 5 or 5b)
- Dairy and livestock farm investment credit (Sch. DI, line 7 or 7b)
- Dairy manufacturing facility investment credit (Sch. DM, line 11)
- Development zones credits (Sch. DC, lines 5, 13, and 21, or 5b, 13b, and 21b)
- Economic development credit (Sch. ED, line 3 or 3b)
- Enterprise zone jobs credit (Sch. EC, line 3 or 3b)
- Ethanol and biodiesel fuel pump credit (Sch. EB, line 5 or 5b)
- Farmland preservation credit (from prior Sch. FC, line 18 or Sch. FC-A, line 13)
- Film production credits (Sch. FP, lines 3, 6, or 3b, 6b)
- Health insurance risk-sharing plan assessments credit (Sch. HI, line 4)
- Internet equipment credit (Sch. IE, line 3 or 3b)
- Manufacturing investment credit (Sch. MI, line 4 or 4b)
- Meat processing facility investment credit (Sch. MP, line 7 or 7b)
- Research credits (Sch. R, line 15 or 28, line 32, and line 42)
- Additional research credits (Sch. R-1 and R-2, line 14 or 27 and line 31)
- Technology zone credit (Sch. TC, line 6 or 6b)
- Food processing plant and food warehouse investment credit (Sch. FW, line 7 or 7b)
- Jobs tax credit (Sch. JT, line 5 or 5b)
- Postsecondary education credit (Sch. PE, line 5 or 5b)
- Woody biomass harvesting and processing credit (Sch. WB, line 5 or 5b)
- Water consumption credit (Sch. WC, line 8 or 8b)

■ **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.

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Instructions for 2011 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.
- Development zones investment credit recaptured because the property is disposed of or ceases to be qualified property before the end of the recapture period.
- 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 in the line below and to the left of line 15. For more information regarding the job creation deduction, refer to Schedule JC.

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Instructions for 2011 Schedule Y: Wisconsin Subtraction Modification for Dividends

Purpose of Schedule Y

Corporations and combined groups complete Schedule Y to report the amount of dividends that may be subtracted from federal taxable income under the Wisconsin dividends received deduction. Combined groups also use Schedule Y to report the amount of intra-group dividends that may be eliminated from combined unitary income in cases where the Wisconsin dividends received deduction does not apply.

Combined groups complete Schedule Y for the group as a whole; they do not need to complete it for each member.

NOTE: Do not use Schedule Y to report dividends that are nontaxable for reasons other than the Wisconsin dividends received deduction or the elimination of intra-group dividends from combined unitary income. See the instructions for Schedule W, line 6 for reporting those dividends.

Below is an explanation of each type of dividend reportable on Schedule Y, followed by line-by-line instructions.

Wisconsin Dividends Received Deduction

The Wisconsin dividends received deduction is available to corporations that are separate entity filers as well as combined group filers. Under sec. 71.26(3)(j), Wis. Stats., a dividend is deductible for Wisconsin purposes if it meets the following requirements:

- It is paid on common stock, and
- The corporation receiving the dividend owned at least 70% of the total combined voting stock of the payer corporation for the entire taxable year.

If the payee corporation is in a combined group, it must own the stock of the payer corporation for the payee's entire taxable year that is included in the combined return.

For purposes of Schedule Y, the Wisconsin dividends received deduction under sec. 71.26(3)(j), Wis. Stats., is called the "70% ownership" dividend deduction.

Elimination of Dividends from Combined Unitary Income

The elimination of dividends from combined unitary income applies only to corporations that are in combined groups. Under sec. 71.255(4)(f), Wis. Stats., and s. Tax 2.61(6)(e), Wisconsin Administrative Code, a dividend paid between two members of the same combined group may be eliminated from the group's combined unitary income if it meets the following requirements:

- The dividend doesn't already qualify for the Wisconsin dividends received deduction under sec. 71.26(3)(j), Wis. Stats.
- The dividend was paid out of earnings and profits attributable to net income or loss that was included in the group's combined unitary income in the current taxable year or a prior taxable year
- The dividend does not exceed the payee's basis in the payer's stock

Note: Dividends between combined group members should not be accounted for on the Form 4R reconciliation since they are accounted for here.

Transitional Rule. If the intra-group dividend was paid out of earnings and profits (E&P) that were generated in a taxable year beginning before January 1, 2009, the dividend may be eliminated from combined unitary income to the extent the net income that generated the E&P would have been included in combined unitary income under sec. 71.255, Wis. Stats., (the statute requiring combined reporting) if that section had been in effect in those years.

Computing Earnings and Profits. The following rules apply to the computation of E&P for purposes of the dividend elimination:

1. *LIFO Rule:* Dividends are treated as paid first out of current E&P. If the dividends paid exceed current E&P, then the dividends are treated as paid out of E&P accumulated in preceding years, beginning with the year closest to the current year.

2. *Pro Rata Rule:* With respect to an individual taxable year, dividends are treated as paid from all E&P earned in that taxable year on a pro rata basis according to the proportion of net income that was included in the combined unitary income for that taxable year.

3. *Tiering-up Rule:* The dividend payer's E&P are generally determined using the federal consolidated return regulations (Treas. Reg. §1.1502-33) as if the combined group is a federal consolidated group. This means that a combined group member's E&P are adjusted to reflect the undistributed E&P of any subsidiary that is a member of the same combined group. However, s. Tax 2.61(6)(g), Wisconsin Administrative Code, provides that a subsidiary's E&P can only be "tiered up" to its parent company to the extent it relates to income that was (or the case of E&P from taxable years before 2009, would have been), included in combined unitary income.

The following examples illustrate these rules:

Example 1:

Combined Group MN consists of Member M and Member N. The combined group was formed when Corporation M acquired 60% of Corporation N on June 1, 2010. Group MN uses a calendar year. During 2011, N paid a dividend to M of $500,000. N's current E&P for 2011, before accounting for the distribution to M, are $100,000. N's E&P attributable to its 2010 calendar year are $1,000,000, of which $50,000 (5% of the total) were earned while N was a member of Group MN. Assume N had no separate entity items while it was a member of Group MN. Also assume M did not deduct any foreign taxes attributable to the dividend and N has sufficient stock basis.

Applying the LIFO and pro rata rules, the amount of dividend that qualifies for elimination from Group MN's combined unitary income in 2011 is $120,000 (= $100,000 + (5% x $400,000)). Under the pro rata rule, 95%, or $380,000, of the dividend paid out of N's 2010 E&P is considered to be paid from pre-acquisition E&P.

Example 2:

Combined Group FGH consists of Member F, Member G, and Member H. F owns all the stock of G, and G owns of all the stock of H. Group FGH is on a calendar year. During the taxable year 2011, F has current year E&P of $300,000 and G has current year E&P of $500,000, both exclusive of any amounts attributed from subsidiaries. Assume F and G's E&P amounts are attributable entirely to items included in Group FGH's 2011 combined unitary income. H has current year E&P of $400,000. However, $50,000 of this amount is attributable to overseas operations, the income from which was not included in combined unitary income under the water's edge rules.

Assume none of the corporations made distributions in 2010. Under the tiering-up rule, G's total current year E&P are $850,000 (= $500,000 + ($400,000 - $50,000 attributed from F)), and F's current year E&P are $1,150,000 (= $300,000 + $850,000 attributed from H).

Line-by-Line Instructions

First, group the total dividends received by the corporation into amounts paid by each payer. If this is a combined return, group the dividends received by each member into amounts paid by each payer.

From the total amounts paid by each payer, identify the dividends that qualify for the "70% ownership" dividend deduction. If this is a combined group, identify any of the remaining dividends that would qualify for elimination from combined unitary income.

■ **Lines 1a through 1f. Qualifying Dividends –** On lines 1a to 1f, enter the aggregate totals of qualifying dividends based on the groupings described above. Each of these lines represents the total dividends paid from one payer corporation to one payee corporation during the entire taxable year. You do not need to report each dividend separately. Instructions for each field of lines 1a through 1f follow:

Name of Payer Corporation. Enter the name of the corporation that paid the dividends eligible for the subtraction.

Name of Payee Corporation. If this is a combined return, enter the name of the corporation that received the dividends from the payer corporation. If this is not a combined return, you may leave this field blank.

Date Acquired by Payee. Enter the date on which the payee obtained the level of voting stock ownership indicated in the *Payee's Ownership of Payer* field described below.

Payee's Ownership of Payer. Check the appropriate line to indicate the payee's level of ownership of the payer's stock. The percentages shown represent the total ownership of the combined voting power of the payer's stock.

CAUTION: If the corporation is not in a combined group, it cannot claim a subtraction for dividends unless it owned more than 70% of the combined voting power of the payer's stock for the entire taxable year.

Dividends Received. Enter the dividends received by the payee from the payer to the extent they qualify for either the dividends received deduction or the elimination from combined unitary income.

CAUTION: If the payee owned more than 50%, but less than or equal to 70%, of the combined voting power of the payer's stock, you must determine how much of the dividends qualify to be eliminated from combined unitary income. You may only report the qualifying amount on lines 1a through 1f.

The following example illustrates how to complete Schedule Y in the case of a combined group:

Example of Lines 1a to 1f for a Combined Group: Combined Group ABC consists of Member A, Member B, and Member C and uses a calendar year. Member A has owned 60% of the voting stock of B since July 1, 2006 and 80% of the voting stock of C since January 15, 2005. During 2011, A received a total of $200,000 in dividends from B and $500,000 in dividends from C. No other corporations in the group received dividends. Member A determined that 25% of the dividend from B was paid out of E&P that wasn't attributable to combined unitary income. Therefore, only $150,000 (= 75% x $200,000) of the dividend from B qualifies for the elimination of dividends.

Group ABC would complete lines 1a and 1b as follows:

Line 1a

Name of Payer Corporation…………………Member B
Name of Payee Corporation…………......….Member A
Date Acquired by Payee……………………07/01/2006
Payee's Ownership of Payer..“> 50% but < or = 70%”
Dividends Received:………………………….$150,000

Line 1b

Name of Payer Corporation…………………Member C
Name of Payee Corporation…………………Member A
Date Acquired by Payee……………….……01/15/2005
Payee's Ownership of Payer……….………....“>70%”
Dividends Received:………………..……….$500,000

Alternatively, the dividends from Member C could have been reported on line 1a and the dividends from Member B on line 1b.

■ **Line 1h. Additional Schedules Y –** If the corporation or combined group has more qualifying dividends than can be reported on lines 1a to 1f, you must use lines 1a to 1f of an additional Schedule Y (or additional Schedules Y) to report the remaining qualifying dividends. Complete lines 1h through 4 only for the first Schedule Y.

■ **Line 3. Foreign Taxes –** On line 3, enter taxes paid to a foreign nation on dividends listed on lines 1a to 1f (including dividends listed on lines 1a to 1f of additional Schedules Y) if you are claiming those foreign taxes as a deduction elsewhere on your return. You may be including them as a deduction in the federal taxable income you report on line 1 of Form 4 or Form 5, or you may be claiming them as a subtraction on Schedule W, line 7.

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