Instructions for 2017 Schedule 4V: Wisconsin Additions to Federal Income

Purpose of Schedule 4V

Corporations complete Schedule 4V to report addition modifications that are needed to account for differences between taxable income under Wisconsin law and under federal law. The corporation files Schedule 4V with its Wisconsin Form 4.

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 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
- 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
- Wisconsin Health and Educational Facilities Authority Bonds if the bonds or notes are issued for the benefit of a person who is eligible to receive the proceeds from another entity for the same purpose for which the bonds or notes are issued and the interest income received from the other bonds or notes is exempt from Wisconsin taxation.

■ **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 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

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 4W for some or all of the amount added back on Schedule 4V, line 3. See the instructions for Schedule 4W, 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 4V exceeds $100,000, the corporation must file Schedule RT, *Wisconsin Related Entity Expenses Disclosure Statement*, with its return. However, for corporations 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.

■ **Line 5. Expenses Related to Nontaxable Income –** Enter expenses included in federal taxable income that are directly or indirectly related to nontaxable 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.

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. Basis, Section 179, Depreciation Differences –

Difference in federal and Wisconsin basis of depreciated or amortized assets:

Starting with the first taxable year beginning in 2014, adjustments are to be made over a 5-year period for the difference between the Wisconsin adjusted basis and the federal adjusted basis of assets owned on the last day of the taxable year beginning in 2013. The assets must have been depreciated or amortized for both Wisconsin and federal tax purposes. As a result of these adjustments, the Wisconsin adjusted basis and the federal adjusted basis of these assets is deemed to be equal on the first day of the taxable year beginning in 2014.

You must first determine the difference between the Wisconsin adjusted basis and the federal adjusted basis of all assets that are being depreciated or amortized on the last day of your taxable year beginning in 2013. This would be on December 31, 2013, if you file your tax return on a calendar-year basis.

If the total federal adjusted basis of the assets is more than the total Wisconsin adjusted basis, complete the worksheet below to determine the required addition to income. As result of this addition, your Wisconsin adjusted basis of all depreciated or amortized assets on the first day of your taxable year beginning in 2014 (January 1, 2014, for calendar-year filers) will be the same as the federal adjusted basis.

Note: If the total Wisconsin adjusted basis is more than total federal adjusted basis, see the instructions for Schedule 4W, line 9.

Worksheet for Difference in Basis
(Keep for your records)

1. Combined federal adjusted basis of all depreciated and amortized assets as of the last day of the taxable year beginning in 2013………….……______________
2. Combined Wisconsin adjusted basis of all depreciated and amortized assets as of the last day of your taxable year beginning in 2013……………..…______________
3. Subtract line 2 from line 1……….______________
4. Multiply line 3 by .20 (20%). This is your addition to income for 2017..______________

Section 179 expenses:

For taxable years beginning on or after January 1, 2014, sections 179, 179A, 179B, 179C, 179D, and 179E of the Internal Revenue Code, related to expensing of depreciable business assets, apply for Wisconsin tax purposes. "Internal Revenue Code" means the federal Internal Revenue Code in effect for the year in which the property is placed in service.

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 instructions.

Depreciation/Amortization*:*

Also 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.

For 2014 and beyond, bonus depreciation was reinstituted by the federal government, and an adjustment is required to account for the depreciation difference because Wisconsin has not adopted federal bonus depreciation provisions. For Wisconsin purposes, depreciation, depletion, and amortization is computed based on the Internal Revenue Code in effect on January 1, 2014, and bonus depreciation was not in effect on that date.

■ Line 7. Amount by Which the Federal Basis of Assets Disposed of Exceeds the Wisconsin Basis – 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. Provide a schedule showing the computation details.

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

	Federal Basis	Wiscon-sin Basis	Differ-ence
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 4V, line 7, would be $10,000. If the Wisconsin bases of the assets had exceeded the federal bases, an entry would be made on Schedule 4W, line 10, instead.

The modification on line 7 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 8. Addition for Credits Computed –** Enter the total amount of credits from the list provided that you computed on your 2017 return. Note: The manufacturing and agriculture credit is the credit computed in 2016.

■ **Line 8a.** Business development credit (Schedule BD)

■ **Line 8b.** Community rehabilitation program credit (Schedule CM)

■ **Line 8c.** Development zones credits (Schedule DC)

■ **Line 8d.** Economic development credit (Schedule ED)

■ **Line 8e.** Electronics and information technology manufacturing zone credit (Schedule CR)

■ **Line 8f.** Enterprise zone jobs credit (Schedule EC)

■ **Line 8g.** Farmland preservation credit (Schedule FC or Schedule FC-A)

■ **Line 8h.** Jobs tax credit (Schedule JT)

■ **Line 8i.** Manufacturing investment credit (Schedule MI)

■ **Line 8j.** Manufacturing and agriculture credit (2016 Schedule MA-M and MA-A)

■ **Line 8k.** Research credits (Schedule R)

■ **Line 8l.** Technology zone credit (Schedule TC)

■ **Line 9. Special Additions for Insurance Companies –** If the corporation 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 4V, line 9.

■ **Line 10. 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.

CAUTION: Do not enter additions on line 10 that are specifically designated on lines 1-9 above. For example, if a depreciation adjustment is passed through from a partnership on Schedule 3K-1, enter the amount on Schedule 4V, line 6, not on line 10.

Additional Information and Assistance

Web Resources. The Department of Revenue has a library of common questions on general business tax topics, available at: revenue.wi.gov/faqs/index.html

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

- E-mail your question to DORFranchise@wisconsin.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 3-107, PO Box 8906, Madison, WI 53708-8906