

Instructions for 2012 Schedule RT-1: Statement of Disallowed Related Entity Expense

Purpose of Schedule RT-1

If a taxpayer cannot deduct an expense it paid, accrued, or incurred to a related entity because the expense did not meet one of the conditions described in Schedule RT, Part II, the related entity may subtract the income that corresponds to the expense that was disallowed. The related entity uses Schedule RT-1 to substantiate the subtraction from income.

In these instructions, the taxpayer whose expense was disallowed is called the “payer” and the related entity which is reporting the subtraction from income is called the “payee.”

Both the payer and payee must complete the appropriate section of the same Schedule RT-1. The payee must file the completed Schedule RT-1 with its Wisconsin income or franchise tax return on which it is claiming the subtraction from income.

NOTE: If the payee is not doing business in Wisconsin, neither the payer nor the payee has to complete Schedule RT-1.

The subtraction from income may apply even if the disallowed expense was below the filing threshold for Schedule RT. However, see the important limitation of the subtraction below.

Limitation of Schedule RT-1 Subtraction

Even if the payer did not file Schedule RT or failed to report all expenses it was required to report on Schedule RT, the payee cannot claim a subtraction from income if the payer’s expense meets all three of the criteria below:

- 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.

In other words, you cannot use Schedule RT-1 to create a subtraction for the payee if the expense is

deductible to the payer using the criteria given above, even if you failed to meet the Schedule RT disclosure requirements. For additional information about whether the payer’s expense is deductible to the payer, see the Schedule RT instructions.

Special Instructions for Pass-Through Entities

If the payee is a pass-through entity, the pass-through entity must file Schedule RT-1 with its Wisconsin return at the entity level, and must report the Schedule RT-1 information with Schedule 3K-1, 5K-1, or 2K-1, as appropriate, using the line on Schedule 3K-1, 5K-1, and 2K-1 designated for “Other items and amounts” (or, for Schedule 2K-1, “Other information”).

On the supporting schedule you provide to the shareholder, partner, member, or beneficiary, indicate the name and federal employer identification number (or social security number if an individual) of the payer of the expense, and the partner’s, member’s, shareholder’s or beneficiary’s allocable share of the subtraction amount.

Specific Instructions for Schedule RT-1

■ **Part I. Information for Payer** – Part I must be completed by the payer. Complete all information requested in items A. through D. After completing Part I, submit the Schedule RT-1 to the payee. You do not need to submit Schedule RT-1 to the Department of Revenue because the payee will do so after completing Part II.

■ **Part II. Information for Payee** – After receiving the Schedule RT-1 from the payer with Part I completed, the payee completes Part II. In Part II, item A., the payee enters the line(s) of its federal income tax return where it reported the income eligible for the subtraction (or from its pro forma federal income tax return if it’s a member of a federal consolidated group). This confirms that the amount to be subtracted was originally included in the income that was the starting point for the Wisconsin income or franchise tax return.

The payee must then submit the completed Schedule RT-1 as an attachment to its Wisconsin income or franchise tax return.

Additional Information and Assistance

Web Resources. The Department of Revenue's web page has a library of common questions on general business tax topics, including the addback and Schedule RT filing requirements. The FAQs are available at: revenue.wi.gov/faqs/index.html.

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

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