Schedule UB Instructions

General Information

What is the purpose of this schedule?

The purpose of Schedule UB is to enable a unitary business group to determine the amount of its unitary business income that is attributable to Illinois. A unitary business group's business income consists of income from transactions and activity in the regular course of the group's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the group's regular trade or business operations. The amount of unitary business income, however, must be computed starting with combined Illinois base income or its equivalent.

What is a unitary business group?

The term "unitary business group" means a group of persons related through common ownership whose business activities are integrated with, dependent upon, and contribute to each other. In the case of a corporation, common ownership is defined as the direct or indirect ownership or control of more than 50 percent of the outstanding voting stock. The statutory definition further provides that a unitary business group cannot include any person whose business activity outside of the United States is 80 percent or more of its total business activity (the "80/20 rule").

A 80/20 rule — For purposes of the 80/20 rule, those persons who would ordinarily use the property, payroll, and sales formula will disregard the sales factor and use only the property and payroll factors to determine the extent of business activity in the United States. See Section C of Specific Instructions. For example, if 80 percent or more of the person's property and payroll are outside the United States, that person will not be included in the unitary business group even though 100 percent of its sales are made in the United States. For purposes of the 80/20 rule, gross figures without eliminations will be used to determine the relevant apportionment factors of property, payroll, *etc.*

B Vertical and horizontal integration — Unitary business activity can ordinarily be illustrated where the activities of the members are

- steps in a vertically structured enterprise or process such as the steps involved in the production of natural resources, which may include exploration, mining, refining, and marketing (vertical); or
- in the same general line such as manufacturing, wholesaling, retailing, insurance, transportation, and finance (horizontal), and in either instance, the members are functionally integrated through the exercise of strong centralized management (where, for example, authority over such matters as purchasing, financing, tax compliance, product line, personnel, marketing, and capital investment is not left to each member).

C Apportionment method — Persons who are required to apportion business income by means of the property, payroll, and sales formula of IITA, Section 304(a), cannot be included in the same unitary business group as persons ordinarily required to apportion business income by means of the single factors (insurance, financial, transportation) specified in IITA, Section 304(b), (c), or (d). This restriction does not apply to any person owned by a bank or a bank holding company. In addition, for tax years ending on or after December 31, 1987, this restriction does not apply to groups composed of one or more single-factor insurance or transportation companies and a holding company of such persons. Persons employing different single-factor formulas cannot be included in the same unitary business group; but two or more insurance companies may constitute a unitary business group, as may two or more financial organizations or transportation companies. Refer to Form IL-1120 Instructions to compute the apportionment formula.

D Holding companies — A holding company should generally be treated as unitary with one or more subsidiaries if

- it is unitary in operations with one or more of the subsidiaries (*i.e.*, operating-holding company); or
- it holds, directly or indirectly, the capital stock of a subsidiary (or of more than one subsidiary which conducts unitary operations); or
- filing of a separate return would distort the business income of the controlled group attributable to Illinois.

E Foreign corporations — A foreign corporation that is a member of a unitary business group shall only include in the combined income of the group the amount of federal taxable income described in Internal Revenue Code (IRC), Sections 881 through 885, rather than its worldwide federal taxable income equivalent. A foreign sales corporation (FSC) that is a member of a unitary business group shall only include in the combined income of the group the amount of federal taxable income described in IRC, Sections 921 through 927. In all cases, only the FSC's or foreign corporation's U.S. domestic "everywhere" factors should be used in the "everywhere" denominators, rather than its worldwide "everywhere" factors.

F Unitary filers that derive business income solely from Illinois — Unitary business groups composed exclusively of members that derive business income solely from Illinois are permitted to file as a unitary group. Unitary returns filed by such a group that report a business loss must also include a completed Schedule UB so the combined loss can be prorated in accordance with regulations for purposes of carryback to separate return years. The factor formula information from Part IV of Schedule UB is necessary in order to divide the Illinois loss among the unitary group members.

Who is the designated agent and controlling corporation?

The designated agent is a member of the unitary business group that is an Illinois taxpayer and authorized to file the combined return as the agent for the other members. The controlling corporation is the corporation that directly or indirectly owns a controlling interest in all the members of the unitary business group. If the controlling corporation is a member of the group and an Illinois taxpayer, it **must** be the designated agent. If the controlling corporation cannot be the designated agent, the group must select an Illinois taxpayer member to be the designated agent. The designated agent should remain the same every year, when possible. Designation of the agent is made in the name and address block in Part I of Schedule UB.

What are the filing requirements?

A — Illinois combined unitary returns

For tax years ending on or after December 31, 1993, corporations (other than S corporations) that are members of the same unitary business group **must** file as one taxpayer (including all eligible members) for purposes of any original return, extension, claim for refund, collection, payment, amended return, and determination of the combined Illinois tax liability. The group is required to file a combined unitary return (one Form IL-1120).

S corporation members of a unitary business group may not file as part of the combined return but should file a separate unitary return (Form IL-1120-ST) apportioning their unitary business income.

For further information regarding combined return filers, refer to Illinois Income Tax Regulations, Sections 100.5200 through 100.5280.

For tax years ending December 31, 1985 through December 30, 1993, corporations (other than S corporations) that have the same tax year, and are members of the same unitary business group may **elect** to be treated as one taxpayer for purposes of any original return, extension, claim for refund, assessment, collection, payment, and determination of the group's tax liability. The election is available to corporate members even though the unitary group includes S corporations. (For tax years ending on or after December 31, 1987, corporations of the same group with different tax years may be included in the same election.) The election, if made, must include all eligible Illinois taxpayer members of the unitary business group. Taxpayers making this election will be called Illinois combined return filers. One combined Form IL-1120 is filed to compute the combined Illinois tax liability.

B — Illinois separate unitary returns

For tax years ending on or after December 31, 1993, Illinois taxpayers that are S corporations and other noncorporate members of a unitary business group are still required to file Illinois separate unitary returns, as well as separate tentative tax payments, separate estimated tax payments, separate claims for refunds, and separate amended returns.

Part IA of each separately filed Form IL-1120-ST must be completed on a separate return basis. Form IL-1120-ST, Part I, must reflect combined figures from Schedule UB, Part III, Column E. However, the unitary business group must file only one Schedule UB.

Note: Members of unitary business groups that are filing separate Forms IL-1120-ST may not apply their separate overpayments and underpayments between members.

For tax years ending prior to December 31, 1993, Illinois taxpayers that are members of a unitary business group and do not elect to file a combined return are required to file separate Forms IL-1120, apportioning the business income of the unitary business group, as well as separate tentative tax payments, separate estimated tax payments, separate claims for refunds, and separate amended returns.

For information regarding the filing of separate unitary returns for tax years ending prior to December 31, 1993, see Schedule UB instructions for the tax year you are filing.

What if there are different accounting periods?

If the unitary business group members' accounting periods differ, the common parent's accounting period must be used to determine the unitary group's business income. If there is no common parent in the group, the group members' income must be determined on the basis of the accounting period of the member that is expected to have, on a recurring basis, the greatest Illinois income tax liability.

In determining the proper income to be included in the appropriate accounting period, a member may reflect income and related deductions (whether or not allocable to Illinois) in accordance with the actual book or accounting entries for the relevant period. As an alternative, a member may determine its income based on the number of months within the common accounting period. For example, if one member uses a calendar year and the common accounting period ends October 31, 1992, the member should include two twelfths of its income from the year ended December 31, 1991, and ten twelfths of its income from the year ended December 31, 1992. Estimates may be necessary where this proration method involves a tax year that ends after the common accounting period. Corporate members (other than S corporations) of the unitary business group must file combined, even if their accounting periods differ.

What if there are part-year members?

All part-year members are required to file as part of the unitary business group for the portion of the year the taxpayer is a member. For the remainder of the year, the member is required to file a separate nonunitary return. However, if the member joins another unitary business group, that member is required to file as part of that group, following the same instructions as above. For further information, refer to the Illinois Income Tax Regulations, Sections 100.3320(f) and 100.5270(f).

What if a domestic international sales corporation (DISC) or a foreign sales corporation (FSC) is a member of this unitary group?

A corporation that has elected to be, or is treated as a DISC for the taxable year under IRC, Section 992, is not subject to the taxes imposed by IRC, Subtitle A (except for the tax imposed on transfers to avoid income tax under Section 1491). Similarly, a DISC is not subject to the taxes imposed by the IITA and is not required to file an Illinois income tax return.

Consequently, even though a DISC may be a member of a unitary business group, only the actual and deemed distributions taxable to the DISC's shareholders for federal income tax purposes should be accounted for in determining Illinois income tax liability. Neither the portion of DISC income on which federal income tax is deferred for the tax year, nor the property, payroll, and sales factors of the DISC should be accounted for in the computation of Illinois income tax liability of the unitary business group under the combined method of apportionment.

Corporate shareholders of a DISC should include in business income their actual and deemed distributions from the DISC, to the extent the distributions are federally taxed. To the extent that the DISC's activities are an integral part of the unitary business, the actual and deemed distributions should be included in the combined unitary business income. If a DISC meets the criteria for inclusion in the unitary business group, it must be listed under Part I, Section B, of Schedule UB. However, computations for the DISC should not be required for Parts II, III, and IV of Schedule UB. In conformity with the applicable provisions of the IRC, the other members of the unitary business group which are shareholders of the DISC should include such amounts in their respective federal taxable incomes (or equivalents) as are required to be included therein for federal income tax purposes.

Distributions from DISCs (for tax years ending after December 31, 1984) are treated in accordance with the federal rules pertaining to dividends, dividend exclusions, and dividend-received deductions for Illinois purposes.

An FSC is taxed by Illinois to the extent its nonexempt foreign trade income, investment income, and carrying charges (taxable for federal purposes) are allocable to Illinois.

Can a reasonable facsimile be used?

A reasonable facsimile or computer-generated version of the Schedule UB, containing the same information and arranged in the same order as our form, may **only** be used if previously approved by the department. For approval, call our Management Operations Division at 217 782-5553.

Specific Instructions

Schedule UB must be attached to Form IL-1120, Form IL-1120-X, Form IL-1120X-PY, or, if all members are S corporations, Form IL-1120-ST.

Note: If the unitary business group consists of more than three members and additional space is needed, complete and attach additional copies of Schedule UB.

Part I — Membership information

Write the name, address, and FEIN of the designated agent. The designated agent must file the Schedule UB in this tax year and each succeeding year.

Write the name, address, and FEIN of the controlling corporation if it is not the designated agent.

Indicate by marking "yes" or "no" whether the controlling corporation is a member of this unitary business group.

For tax years ending **prior to December 31, 1993 only**, indicate whether the members of your unitary business group are electing to file an Illinois combined return by marking "yes" or "no."

Note: If your unitary business group consists solely of S corporations (Form IL-1120-ST), write the name, address, and FEIN of the member, who on a recurring basis, has the greatest Illinois tax liability. This member must file Schedule UB in this tax year and each succeeding year. All returns filed by other members of the group must provide the FEIN of the member that filed the Schedule UB. Space is provided below the name and address area on each return.

Section A — Check the filing structure and apportionment method you are using

Filing structure — Indicate whether the unitary business group's activities are vertical structures or horizontal structures by marking the appropriate box. See "Vertical and horizontal integration" under "What is a unitary business group?"

Apportionment method — Indicate the type of apportionment method used by this unitary business group by marking the appropriate box. See "Apportionment method" under "What is a unitary business group?"

Section B — List all members

Columns A, B, and C — List all members of the unitary business group, including name, address, FEIN, and tax year ending. If your unitary group consists of both Form IL-1120 and Form IL-1120-ST filers, attach a list identifying Form IL-1120-ST members.

Column D — Indicate whether each member of the unitary business group is required to file an Illinois income tax return for the year. For an explanation of who must file an Illinois income tax return, refer to the instructions for Form IL-1120, Illinois Corporation Income and Replacement Tax Return, or Form IL-1120-ST, Illinois Small Business Corporation Replacement Tax Return, as appropriate.

Note: You may **not** substitute the Affiliations Schedule (U.S. Form 851) from a federal consolidated return for Section B.

Section C — List all persons excluded due to the 80/20 rule

Columns A, B, and C — List all persons excluded due to the 80/20 rule, including name, address, FEIN, and indicate whether required to file an Illinois return.

A unitary business group may not include any person whose business activity outside of the United States is 80 percent or more of its total business activity (the 80/20 rule). To determine whether a potential member is excluded by the 80/20 rule, you should use the factors you are normally required to use to apportion business income (under IITA, Section 304), with three exceptions. First, the numerator of each factor will include business activity in the U.S. (the 50 states and D.C.) rather than in Illinois alone. Second, if you would normally use the three-factor formula of property, payroll, and sales, you should disregard the sales factor. Third, to determine the relevant apportionment factors, you should use gross figures without eliminations. Foreign corporations filing U.S. Form 1120F, will meet the 80/20 test because only their domestic property and payroll figures will be used in the "everywhere" denominators, rather than worldwide "everywhere" figures.

Section D — Attach a list of all other persons not listed in Sections B or C

This list should include all other persons not listed in Sections B or C that control, or are controlled, directly or indirectly (through the ownership of more than 50 percent of their voting stock) by a member of the unitary business group. Do not include any person that conducts 80 percent or more of its business activity outside the United States.

Part II — Figure your federal taxable income or equivalent

Columns A, B, and C — Write the FEIN and complete Lines 1 through 30 for each member of the unitary business group listed in Part I, Section B. Generally, these line amounts correspond to the line amounts from U.S. Form 1120. Use additional schedules, if necessary.

Note: Do not write any amount on Line 29a in Part II. Federal net operating losses are provided for on the Schedule UB, Part III, Line 5g (for losses arising from tax years ending prior to December 31, 1986). Illinois net loss deductions are provided for on Form IL-1120, Part IV, Line 2 (for losses arising from tax years ending on or after December 31, 1986).

Computing federal taxable income (or net operating loss) — All members of the unitary business group must include their federal taxable income (loss) in Part II.

Federal taxable income (loss) in Part II of the Schedule UB means "separate taxable income" that would be computed by each member for purposes of a federal consolidated return and its supporting statements in accordance with IRS Regulations, Section 1.1502-12. For Illinois income tax purposes, the federal taxable income (loss) of each member of the unitary business group is written on Line 30.

For S corporations, federal taxable income on Line 30 should equal the amount on Form IL-1120-ST, Part IA, Line 5.

Column D — Eliminations between group members and federal consolidating adjustments — Write any eliminations between members and federal consolidating adjustments listed below.

Any eliminations necessary to prevent distortion of the unitary business group's combined income must be written on the appropriate lines of Part II (or III), Column D, and an explanation must be attached, giving details of each such intercompany transaction and the unitary business group members involved. All consolidating adjustments must be shown in Column D of Part II (or III) of the Schedule UB, with explanations attached.

Intercompany transactions between members of the same unitary business group may result in income or expenses which, if not eliminated, distort the unitary business group's combined income. Examples of such intercompany income items are fees received from other members of the group for management and other services, rents, royalties, interest, and dividends. These intercompany transactions may also result in charges to expense, asset, surplus, or other accounts which must be eliminated if they cause a distortion of income. Also, the unrealized profit contained in a unitary business group member's ending inventory as a result of intercompany sales of merchandise should be eliminated unless the unrealized profit in ending inventory tends to remain constant from year to year, not causing a substantial distortion of income.

Column E — Combined totals — Write the combined total of Columns A, B, C, and D for each line. Combined taxable income (or combined NOL) should be determined by treating all members of the unitary business group (other than S corporations) as if they constitute a federal consolidated group and by applying the federal regulations for determining consolidated taxable income (refer to IRS Regulation, Section 1-1502-11) and consolidated NOL (refer to IRS Regulation, Section 1.1502-21(f)).

Foreign taxes — In constructing the equivalent of federal taxable income for a member not required to file a federal income tax return, the member is not permitted a deduction for income taxes paid to the country in which it is commercially domiciled. A deduction for foreign taxes can be taken by a foreign parent or subsidiary in the computation of equivalent federal taxable income if the majority of group members filing federal income tax returns chose such a deduction. If the majority of the members used the foreign tax credit in the execution of their respective federal returns, a deduction for foreign taxes is not allowed in the computation of equivalent federal taxable income. However, those members of the group that filed federal income tax returns are bound by the treatment on those returns regarding the deduction of, or credit for, foreign taxes.

Part III — Figure your combined business income

Generally, these items correspond to lines on Form IL-1120, Parts I and III. For specific line information, refer to Form IL-1120 instructions. Schedules used to compute any amounts shown **must** be attached to Form IL-1120.

Line 1 — Write the federal taxable income (loss) for Illinois purposes from Part II, Column E, Line 30.

Columns A, B, and C — Write the FEIN and financial amounts for each member of the unitary business group listed in Part I, Section B.

Special instructions for Lines 5g and 9

Line 5g — Federal net operating loss (NOL) carryforwards arising from tax years ending prior to December 31, 1986, are subtractable to the extent of Illinois base income in the carry year and to the extent not previously used. Refer to instructions for Schedule UB/NL-5g, Part III, Column G, for limitations in the amount of loss that may be applied to each member of the unitary group. Schedule UB/NL-5g must be completed and attached to Form IL-1120 to claim an NOL subtraction.

Line 9 — Write the amount of all nonunitary business income (loss) received from any partnership, estate, or trust of which the corporation is a partner or beneficiary.

Note: If the activities of the corporation and the activities of a partnership of which the corporation is a partner constitute a unitary business relationship, any shares of partnership income (loss) and factors of the corporate partner must be included in the business income and factors of the corporation. Any such income cannot be subtracted on Line 9. For further information, refer to Illinois Income Tax Regulations, Section 100.3380(c).

Column D — See specific instructions for Part II, Column D — Eliminations between group members and federal consolidating adjustments.

Column E — Write the combined total of Columns A, B, C, and D for each line.

Part IV — Figure your apportionment factors

You are allowed to exclude transactions between members before you write any amounts in this part. You may exclude as Illinois sales, any sales of tangible personal property made for resale to persons who are excluded from the unitary business group because of the 80/20 rule.

Line 1 — Write the combined unitary business income (loss) from Part III, Column E, Line 11.

Column A, B, and C — Write the FEIN and financial amounts for each member listed in Part I, Section B. Amounts in these columns cannot be negative. All lines pertaining to each member's separate property, payroll, and sales must be completed. This applies to all members, even if a combined unitary business group loss is shown on Column D, Line 1, or if they are 100 percent apportionable to Illinois.

To arrive at the combined unitary business group income to be apportioned to Illinois, the "net everywhere" amounts for property, payroll, and sales are taken from Column D and written on Part III of Form IL-1120 or Form IL-1120-ST.

Combined "within Illinois" figures in Column D should be written on the combined Form IL-1120. Separate "within Illinois" figures should be written on Form IL-1120-ST for each S corporation member required to file an Illinois return.

Specific instructions for completing Form IL-1120

The amounts to be transferred to Form IL-1120 should be taken from Schedule UB, Parts II, III, and IV. For specific line information, refer to Form IL-1120 instructions.

Part I of Form IL-1120

Write combined amounts from Schedule UB, Part III, Column E, Lines 1 through 7.

Part II of Form IL-1120

For tax years ending on or after December 31, 1993, if you are a member of a unitary business group, you must make payments on a combined basis. If you have made payments under FEINs other than the designated agent's FEIN, Schedule P must be completed and attached to Form IL-1120. Future payments should be made only under the designated agent's FEIN.

Part III of Form IL-1120

Lines 1 through 4 — Write combined amounts from Schedule UB, Part III, Column E, Lines 7 through 11.

Lines 5a, 5b, and 5c - Columns 1 and 2 — For Column 1, Total everywhere, write combined "net everywhere" figures from Schedule UB, Part IV, Column D, Lines 2a, 2d, and 2g.

For Column 2, Within Illinois, write combined "net within Illinois" figures from Schedule UB, Part IV, Column D, Lines 2b, 2e, and 2h.

Lines 9 and 10 — Write the combined total of nonbusiness, and nonunitary partnership, estate, trust income (loss) allocable to Illinois for all members of the group.

Part IV and Part V of Form IL-1120

Part IV, Line 2 — Schedule UB/NLD must be completed and attached to Form IL-1120 to claim an Illinois net loss deduction. Refer to instructions for Schedule UB/NLD, Part III, Column G, for limitations in the amount of loss that may be applied to each member of the unitary group.

Part IV, Line 10 and Part V, Line 4 — The designated agent should compute any credit allowed based on the combined activities of the electing eligible members and apply it against the combined liability of the electing eligible members. For further information, refer to Illinois Income Tax Regulations, Section 100.5270.

Part VI of Form IL-1120

Part VI must be completed in its entirety.

Note: If you need further information, write to Illinois Department of Revenue, Legal Services Office, 101 West Jefferson Street, Springfield, IL 62794-9001, and request the Illinois Income Tax Regulations referenced in these instructions.