



# Schedule UB Instructions

## What is new?

Effective for tax years **ending on or after December 31, 2000**, only sales are used to figure the apportionment factor. Use this Schedule UB to file unitary for tax years ending on or after December 31, 2000. Use Schedule UB with an earlier revision date to file unitary for tax years **ending prior to December 31, 2000**.

Effective for tax years **ending on or after December 31, 2001**, you will no longer be allowed a subtraction on Part III, Line 5g, for a federal net operating loss (NOL) carryforward from loss years ending prior to December 31, 1986. A federal NOL arising from tax years ending prior to December 31, 1986, could only be carried forward for 15 years. These losses were claimed on Schedule UB/NL-5g.

## General Information

### What is the purpose of this schedule?

The purpose of Illinois 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** — To determine what percentage of your business activity is conducted outside the United States, you must use the same apportionment formula you use to determine how much business

income is allocable to Illinois. However, if you use the single sales factor formula to apportion your business income, you must use only your payroll and property factors (computed in the same manner as in effect for tax years ending prior to December 31, 2000) and disregard the sales factor. See Section E of Specific Instructions. 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. 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 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. See 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 two or more subsidiaries which are conducting unitary operations; or
- filing of a separate return would distort the business income attributable to Illinois of the controlled group.

**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. The foreign corporation's U.S. domestic "everywhere" factor should be used in the "everywhere" denominator, rather than its

worldwide "everywhere" factor. 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.

**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 required to file as a unitary group. Unitary returns filed by such a group that report a business loss must also include a completed Illinois 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 Illinois 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 **must** be 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 must remain the same every year, unless the designated agent ceases to be a member of the group or the controlling corporation becomes the designated agent. Designation of the agent is made in Part I of Illinois Schedule UB.

### What are the filing requirements?

#### A — Illinois combined unitary returns

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 do not file as part of the combined return, but file a separate

unitary return (Form IL-1120-ST) apportioning their unitary business income.

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

## **B — Illinois separate unitary returns**

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. However, the unitary business group (including S corporation members) must complete only one Illinois Schedule UB and include a copy with each return filed.

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 Illinois Schedule UB, Part III, Column E.

**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 information regarding the filing of combined unitary returns for tax years ending December 31, 1985, through December 31, 1993, and separate unitary returns for tax years ending prior to December 31, 1993, see Illinois 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 designated agent's accounting period must be used to determine the unitary group's business income.

Corporate members (other than S corporations) of the unitary business group must file combined, even if their accounting periods differ. In determining the proper income to be included in the appropriate accounting period, a member may compute its pro-forma taxable income from its books and records for the common taxable year. 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, 2000, the member should include two-twelfths of its income from the year ended December 31, 1999, and ten-twelfths of its income from the year ended December 31, 2000. This method may be used only if the group's return may be timely filed after the member's taxable year ends. As another alternative, the group may include in its

taxable income all of the taxable income of a member whose tax year ends within the group's tax year. Once one of these methods is used for a member, that member must continue to use that method unless the requirements of Illinois Income Tax Regulations, Section 100.5265(c) are met.

## **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 non-unitary return. However, if the member belongs to another unitary business group during the remainder of the year, that member is required to file as part of that group, following the same instructions as above. For further information, see 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 sales factor 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 Illinois Schedule UB. However, computations for the DISC should not be required for Parts II, III, and IV of Illinois 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 for federal income tax purposes.

Distributions from DISCs 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 Illinois Schedule UB, that contains the same information and is arranged in the exact same format as our form, may be used **only** if previously approved by the department. For approval, call our Office of Publications Management at 217 782-4641 or 217 557-3017.

## **Specific Instructions**

Use this Schedule UB to file unitary for tax years ending on or after December 31, 2000. Use Illinois Schedule UB with an earlier revision date to file unitary for tax years **ending prior to December 31, 2000**.

Illinois Schedule UB must be attached to Form IL-1120, Form IL-1120-X, 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 Illinois Schedule UB.

## **Part I — Membership information**

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

Write the name and FEIN of the designated agent that filed Illinois Schedule UB last year, if different from this year.

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

You must indicate whether the controlling corporation is a member of this unitary business group.

**Note:** If your unitary business group consists solely of S corporations (Form IL-1120-ST), write the name and FEIN of the member, who on a recurring

basis, has the greatest Illinois tax liability. This member must file Illinois 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 Illinois 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** — You must indicate whether the unitary business group's activities are vertical structures or horizontal structures. See "Vertical and horizontal integration" under "What is a unitary business group?"

**Apportionment method** — You must indicate the type of apportionment method used by this unitary business group. 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, 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** — Check the line in this column if the member listed in Column A is required to file an Illinois income tax return for this tax year. For an explanation of who must file an Illinois income tax return, see 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.

**Columns E and F** — Check the line in these columns if they apply to the member listed in Column A for this tax year.

**Column G** — If any member of your unitary group is a foreign insurer, whose state or country of domicile imposes a retaliatory tax on insurers domiciled in Illinois, your unitary group may be entitled to a tax reduction. Check the line in this column if it applies to the member listed in Column A for this tax year, and attach a completed Illinois Schedule UB/INS, Tax for a Unitary Business Group with Foreign Insurer Members.

### Section C — List any mergers with members listed in Section B

**Column A** — Write the name and FEIN of the person who has merged with any member of this unitary group in this tax year.

**Column B** — Write the name and FEIN of the member listed in Section B with whom this person merged.

### Section D — List all members who left the group during this tax year

Write the name and FEIN of any member who was a member of this unitary group last year and left the group during this tax year.

### Section E — Attach a list of all persons excluded due to the 80/20 rule and all other persons not listed in Sections B through D.

First, attach a list of all persons excluded due to the 80/20 rule. Write the name, FEIN, and indicate whether this person is 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 must 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 use the single sales factor formula to apportion your business income, you do not use the sales factor in applying the 80/20 rule. Instead, you must use only your payroll and property factors, computed in the same manner as these factors were computed for tax years ending prior to December 31, 2000. For example, if 85 percent of your property and 95 percent of your payroll is outside the United States, then 90 percent of your business activity is conducted outside the United States (85 percent plus 95 percent, divided by 2) and you cannot be included in a unitary business group. You cannot be included in a unitary business group even if 100 percent of your sales are made in the United States. Third, to determine the relevant apportionment factors, you should use gross figures without eliminations for transactions with other members of your group. 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.

**Line 1** — Write the total number of persons excluded.

Second, attach a list of all other persons and their FEINs, not listed in Sections B through D that control, or are controlled by directly or indirectly (through the ownership of more than 50 percent of their voting stock) 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.

**Line 2** — Write the total number of other persons.

## 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. For tax years ending before **December 31, 2001**, federal net operating losses are provided for in 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 or loss in Part II.

Federal taxable income or loss in Part II 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 or 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 consolidated 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. You must attach an explanation 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) 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 also may 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, thus 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 as if they constitute a federal consolidated group and by applying the federal regulations for determining consolidated taxable income (see IRS Regulation, Section 1.1502-11) and consolidated NOL (see IRS Regulation, Section 1.1502-21(e)).

**Federal elections** — In computing federal taxable income, each member is required to follow all elections it made (or which were made on its behalf) for federal income tax purposes.

### 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, see 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 or 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** — For tax years **ending before December 31, 2001**, 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. See instructions for Illinois 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. Illinois Schedule UB/NL-5g must be completed and attached to Form IL-1120 to claim an NOL subtraction. For tax years **ending on or after December 31, 2001**, this subtraction will no longer be allowed. A federal NOL arising from tax years ending prior to December 31, 1986, could only be carried forward for 15 years.

**Line 9** — Write the amount of all non-unitary business income or loss received from any partnership, trust, or estate 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 or 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, see Illinois Income Tax Regulations, Section 100.3380(d).

**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 factor

You must exclude transactions between members before you write any amount in this part. You must 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 or 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. The lines pertaining to each member's separate 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.

**Line 3** — For members who are not required to file Illinois returns, write zero on this line.

For tax years **ending on or after December 31, 2000**, the apportionment factor is figured using only the sales factor.

To arrive at the combined unitary business group income to be apportioned to Illinois, the "net sales everywhere" amount is taken from Column D, Line 2, and written on Part III of Form IL-1120 or Form IL-1120-ST.

Combined "net sales within Illinois" amount on Column D, Line 3, should be written on the combined Form IL-1120. Separate "net sales within Illinois" amounts 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 Illinois Schedule UB, Parts II, III, and IV. For specific line information, see Form IL-1120 instructions.

### Part I of Form IL-1120

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

### Part II of Form IL-1120

**Note:** You **must** make payments on a combined basis under the designated agent's FEIN.

If you have any foreign insurer members and you completed Illinois Schedule UB/INS, write the reduced tax amounts from that schedule.

### Part III of Form IL-1120

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

**Line 5a** — Write the combined "net sales everywhere" amount from Part IV, Column D, Line 2.

**Line 5b** — Write the combined "net sales within Illinois" amount from Part IV, Column D, Line 3.

**Lines 7 and 8** — Write the combined total of nonbusiness, and non-unitary partnership, trust, or estate income or loss allocable to Illinois for all members of the group.

### Part IV and Part V of Form IL-1120

**Part IV, Line 2** — Illinois Schedule UB/NLD must be completed and attached to Form IL-1120 to claim an Illinois net loss deduction. See instructions for Illinois 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 complete 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, see Illinois Income Tax Regulations, Section 100.5270.

### Part VI of Form IL-1120

You must complete Part VI in its entirety.

**Note:** If you need further information, visit our Web site at [www.revenue.state.il.us](http://www.revenue.state.il.us) and view the Illinois Income Tax Regulations referenced in these instructions, or write to Illinois Department of Revenue, Legal Services Office, Senior Counsel - Income Tax, 5-500, 101 West Jefferson Street, Springfield, IL 62702, and request these regulations.

