



# Schedule 80/20 Related-Party Expenses

Attach to your Form IL-1120, IL-1120-ST, or IL-1065. For tax years ending on or after December 31, 2004.

Year ending

Month Year  
IL Attachment No. 16

Write your name as shown on your Form IL-1120.

Write your Federal employer identification number (FEIN).

## Step 1: Identify your 80/20 Companies

|   | A       | B     | C     | D<br>TOTALS |
|---|---------|-------|-------|-------------|
| 1 Write the name of each 80/20 Company                  | 1 _____ | _____ | _____ |             |
| 2 Write the FEIN for each 80/20 Company, if applicable. | 2 _____ | _____ | _____ |             |

## Step 2: Figure your addition modification (All taxpayers - complete Lines 3 through 7)

|  |         |       |       |         |
|--|---------|-------|-------|---------|
| 3 Amount of Interest paid to each 80/20 company.                                 | 3 _____ | _____ | _____ |         |
| 4 Amount of dividends received from each 80/20 company.                          | 4 _____ | _____ | _____ |         |
| 5 Subtract Line 4 from Line 3. If negative, write the amount in brackets.        | 5 _____ | _____ | _____ |         |
| 6 Intangible expenses paid to each 80/20 company.                                | 6 _____ | _____ | _____ |         |
| 7 Add Lines 5 and 6. If the result is negative, write zero and see instructions. | 7 _____ | _____ | _____ | 7 _____ |

## Step 3: Figure your subtraction allowance (All taxpayers - complete Lines 8 through 11.)

|  |          |       |       |          |
|--|----------|-------|-------|----------|
| 8 Write the amount of interest received from each 80/20 company.             | 8 _____  | _____ | _____ |          |
| 9 Write the lesser of Line 5 or Line 8. If Line 5 is negative, write zero.   | 9 _____  | _____ | _____ | 9 _____  |
| 10 Write the amount of intangible income received from each 80/20 company.   | 10 _____ | _____ | _____ |          |
| 11 Write the lesser of Lines 6, 7, or 10. If Line 7 is negative, write zero. | 11 _____ | _____ | _____ | 11 _____ |

### 80/20 Companies only - complete Lines 12 through 18

|   |                          |          |          |  |
|---|--------------------------|----------|----------|--|
| 12 Write the name and FEIN of the U.S. Company that paid you interest or intangible expenses.                                       | Name _____<br>FEIN _____ |          |          |  |
| 13 Write the amount of interest received from the U.S. Company.   |                          | 13 _____ |          |  |
| 14 Write the amount of interest paid to you from the U.S. Company's Schedule 80/20, Line 5.   |                          | 14 _____ |          |  |
| 15 Write the lesser of Line 13 or Line 14.  |                          |          | 15 _____ |  |
| 16 Write the intangible income received from the U.S. company.  |                          | 16 _____ |          |  |
| 17 Write the amount of intangible expenses paid to you from the U.S. Company's Schedule 80/20, Line 6 or Line 7, whichever is less. |                          | 17 _____ |          |  |
| 18 Write the lesser of Line 16 or Line 17.  |                          |          | 18 _____ |  |

### All taxpayers complete Line 19.

|   |  |  |  |          |
|---|--|--|--|----------|
| 19 Add Lines 9, 11, 15, and 18. Write the amount here and see instructions. |  |  |  | 19 _____ |
|---|--|--|--|----------|

# Schedule 80/20 Instructions

## General Information

Illinois law states that a unitary business group may not include any company that conducts 80 percent or more of its business outside of the United States. Domestic unitary members often use 80/20 companies as a means of reducing their Illinois income by paying what would normally be considered valid deductions, such as interest, royalties, and other "intangible expenses" to an 80/20 company that Illinois cannot tax.

Effective for tax years **ending on or after December 31, 2004**, you may not deduct some interest or "intangible expenses" from transactions with an 80/20 company. All interest and intangible expenses you deducted federally, that are in excess of any taxable dividends you received from the 80/20 company must be added back, unless an exception applies (see Specific Instructions).

You will be allowed to subtract the amount of taxable interest and dividend income you received from the 80/20 company, up to the amount of federally deductible interest or intangible asset income you received from that 80/20 company that is added back, unless an exception applies (see Specific Instructions).

## What is the purpose of Schedule 80/20?

Schedule 80/20 provides the following calculations:

- to figure the amount of deductions the domestic unitary member must add back to its income;
- to allow the domestic unitary member to figure the correct amount of allowable, valid deductions; and
- to allow any 80/20 company with an Illinois filing requirement to take a deduction for the expenses on which the domestic company is being taxed.

**Note** If you have more than three 80/20 companies to report, and additional space is needed, complete and attach additional copies of Schedule 80/20. Report the totals in Column D of the last page.

## Definitions

An "**80/20 company**" means any taxpayer who would be a member of a unitary business group with you, if not for the fact that 80 percent or more of its business activities are conducted outside the United States. For more information, see the section on the "80/20 rule" in "What is a unitary business group" in the instructions to the Schedule UB, Combined Apportionment for Unitary Business Group.

"**Intangible expenses**" means royalties and fees paid for intangible assets, losses incurred on sales or other dispositions of intangible assets to an 80/20 company, losses on factoring or discounting transactions with an 80/20 company, and deductible expenses incurred in connection with the acquisition, use, management, or sale or other disposition of an intangible asset.

"**Intangible assets**" include patents, patent applications, trade names, trademarks, service marks, copyrights, mask works, trade secrets, and similar types of intangible property.

"**Related party**" means

- a brother, sister, spouse, ancestor or lineal descendant of an individual;
- an individual and a corporation more than 50 percent in value of the outstanding stock of which is owned directly or indirectly, by or for such individual.
- two corporations which are united by common ownership, even if the corporations are not members of a unitary business group;
- a grantor and a fiduciary of any trust;
- a corporation and a partnership if the same persons own more than 50 percent in value of the outstanding stock of the corporation, and more than 50 percent of the capital interest, or the profits interest, in the partnership;
- an S corporation and any of its shareholders;
- an S corporation and another S corporation if the same persons own more than 50 percent in value of the outstanding stock of each corporation;
- an S corporation and a C corporation, if the same persons own more than 50 percent in value of the outstanding stock of each corporation;
- a partner and its partnership and each of the other partners in that partnership.

## Unitary business groups

If you are a member of a unitary business group, one Schedule 80/20 should be completed for the entire group. Complete Schedule 80/20 showing the column for each 80/20 company all of the disallowed interest and intangible expense deductions paid by all members of the unitary business group, or all of the interest, intangible asset income, and dividends received by every member of the unitary business group from the 80/20 company. Members of the unitary business group who do not join in a combined return should attach a copy of the unitary Schedule 80/20 to their separate returns.

80/20 companies that received interest or intangible asset income from more than one member of a unitary business group should report these amounts as if received from a single person.

## Specific Instructions

**Line 1** - Write the name of each 80/20 company to whom you paid interest or intangible expenses you are required to add back.

**Line 2** - Write the FEIN (if applicable) for each 80/20 company listed in Line 1. If the 80/20 company does not have a FEIN, leave that column blank.

**Line 3** - Write all interest you paid to each 80/20 company and deducted in computing base income in this tax year, but do not include interest paid to an 80/20 company,

- if the 80/20 company is subject to an income tax on that interest in a foreign country or another state, other than a state that requires unitary reporting;
- to the extent the 80/20 company paid interest during the tax year to an unrelated party, but only if your arrangement with the 80/20 company did not have a principal purpose of reducing your Illinois income tax liability, and the terms and interest rates of your arrangement with the 80/20 company are the same as they would be with an unrelated party;
- if your arrangements with the 80/20 company did not have a principal purpose of reducing your federal or Illinois income tax liability, and the terms and interest rates of your arrangement with the 80/20 company are the same as they would be with an unrelated company;
- if you can establish that the add-back is unreasonable; or
- the department has given you written permission to use an alternative apportionment formula and to deduct this interest. See the instructions of your income tax return for more information.

**Line 4** - Write all dividends received from each 80/20 company, plus any amounts included in gross income under the Internal Revenue Code (IRC) Sections 951 through 964 and amounts included in gross income under IRC, Section 78, but only to the extent such amounts are included in your base income for this tax year.

**Line 5** - Follow the instructions on the form.

**Line 6** - Write all intangible expenses incurred in transactions with each 80/20 company that you deducted in computing base income in this tax year, but do not include intangible expenses from transactions with an 80/20 company,

- if the 80/20 company is subject to an income tax on its income resulting from your expense in a foreign country or another state, other than a state that requires unitary reporting;
- to the extent the 80/20 company incurred a similar, related expense during this tax year in a transaction with an unrelated

party, but only if your arrangement with the 80/20 company did not have a principal purpose of reducing your Illinois income tax liability, and the terms and rates of your arrangement with the 80/20 company are the same as they would have been with an unrelated party;

- if you can establish that the addback is unreasonable; or
- the department has given you written permission to use an alternative apportionment formula and to deduct this expense.

**Line 7 - Columns A, B, and C:**

For each 80/20 company

- if the amounts on Lines 5 and 6 are positive, add Line 5 and Line 6.
- if the amount on Line 5 is negative, subtract Line 5 from Line 6, and write the result. If the result is negative, write zero.

**Column D:** Add the amounts in Columns A, B, and C, and write the total in Column D.

Include the amount in Column D on your Form IL-1120, Step 2, Line 6, Form IL-1120-ST, Part I, Line 2c, or Form IL-1065, Part I, Line 2d.

**Complete Lines 8 through 11 only if you had an add-back on Lines 3 through 7.**

**Line 8** - If you received interest from an 80/20 company listed on Line 1, write the amount included in your base income for each 80/20 company.

**Line 9** - Follow the instructions on the form.

**Line 10** - If you received income from transactions involving intangible assets with an 80/20 company listed on Line 1, write the amount included in your base income for each 80/20 company.

**Line 11** - Follow the instructions on the form.

**Lines 12 through 18 should only be completed by an 80/20 company that is allowed a subtraction modification because the U.S. company they are affiliated with must claim and add-back any portion of interest or intangible assets on a separate Schedule 80/20.**

**Line 12** - Write the name and FEIN of the U.S. company or the designated agent of the unitary business group that was disallowed a deduction for the interest or intangible expenses paid to you.

**Line 13** - Write the total amount of interest received from the U.S. Company that you included in your base income for this tax year, net of any related expenses.

If negative, leave blank, skip Lines 14 and 15 and go to Line 16.

**Line 14** - Write the amount from Line 5 of the Schedule 80/20 by the U.S. Company for this tax year with respect to interest paid to you. If negative, write zero.

**Line 15** - Follow the instructions on the form.

**Line 16** - Write the total amount of intangible asset income received from the U.S. company that you included in your base income for this tax year, net of any related expenses.

If negative, leave blank, skip Lines 17 and 18, and go to Line 19.

**Line 17** - Write the lesser of Line 6 or 7 of the Schedule 80/20 filed by the U.S. Company with respect to intangible expenses incurred in transactions with you.

**Line 18** - Follow the instructions on the form.

**Line 19** - Add the total amounts in Column D, Lines 9, 11, 15, and 18. Write the total here and on Form IL-1120, Step 3, Line 21, Form IL-1120-ST, Part I, Line 5e, or Form IL-1065, Part I, Line 5g.

