

**WISCONSIN DEPARTMENT OF REVENUE  
DIVISION OF INCOME, SALES, AND EXCISE TAX**

**NOTICE OF PROPOSED GUIDANCE DOCUMENTS**

Pursuant to sec. 227.112, Wis. Stats., the Wisconsin Department of Revenue, Division of Income, Sales, and Excise Taxes hereby seeks comment on the proposed guidance document listed in the table below.

**SUBMITTING PUBLIC COMMENTS**

Public comments on proposed or adopted guidance documents may be submitted online at: <https://www.revenue.wi.gov/Pages/contactUs/proposed-Guidance.aspx>.

**DEADLINE FOR SUBMISSION**

The period for public comment for proposed guidance documents ends 21 days after publication in the Administrative Register, unless the Governor approves a shorter commenting period.

<b>Document Number</b>	<b>Document Title</b>
<b>100117</b>	Disclosure of Related Entity Expenses on Schedule RT - Common Questions

State of Wisconsin  
Department of Revenue

## Disclosure of Related Entity Expenses on Schedule RT

**This is a proposed guidance document. The document has been submitted to the Legislative Reference Bureau for publication in the Administrative Register for public comment as provided by sec. 227.112(1), Wis. Stats.**

1. Who must file Schedule RT?
2. How does the \$100,000 threshold exception apply?
3. How does Schedule RT relate to the requirement to "add back" certain related entity expenses?
4. How do the Schedule RT requirements apply to pass-through entities?
5. How do the Schedule RT requirements affect transactions involving disregarded entities?
6. Is it sufficient to enter "available upon request" on Schedule RT?
7. What supporting documentation is required to be filed with Schedule RT?
8. I'm on a cash basis. On Schedule RT, do I have to report expenses I incurred this year but won't deduct until next year?
9. Do I need to file more than one Schedule RT for the taxable year?
10. Should the Schedule RT amounts be before or after applying the apportionment percentage?
11. What is the due date for filing Schedule RT?
12. What happens if Schedule RT is not filed in cases where it is required?
13. Can I file Schedule RT on an amended return after the due date?
14. What happens if a taxpayer discloses an incorrect amount of interest, rent, management fee, or intangible expense on Schedule RT?
15. Where can I find more written guidance about the Schedule RT requirements?

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### 1. **Who must file Schedule RT?**

Schedule RT may be required for any type of taxpayer, including individuals, corporations, limited liability companies, and insurance companies; as well as for pass-through entities such as tax-option (S) corporations, partnerships, limited liability companies treated as partnerships, estates, and trusts.

The department has prepared a [flowchart](#) to illustrate when Schedule RT is required. Further explanation is also provided below.

Schedule RT is required if the taxpayer or pass-through entity is

- Reporting expenses on its Wisconsin return which are paid, accrued, or incurred to a related entity,
- Those expenses are for interest, rent, management fees, or intangible expenses, and
- The \$100,000 threshold exception does not apply.

A "related entity" is any related person under sections 267 or 1563 of the Internal Revenue Code, and can include a related individual, corporation, tax-option (S) corporation, partnership, limited liability company, estate, or trust. (For more details, see the answer to Question 2 in the Common Questions titled "[Addback of Related Entity Expenses](#).")

See Question 2 below for details of the \$100,000 threshold exception.

## 2. **How does the \$100,000 threshold exception apply?**

Schedule RT is not required if the total expenses reportable on Schedule RT, multiplied by the taxpayer's Wisconsin apportionment percentage (if applicable) is \$100,000 or less. Expenses reportable on Schedule RT which are not attributable to apportionable income may not be multiplied by the Wisconsin apportionment percentage in determining if the \$100,000 threshold exception applies.

## 3. **How does Schedule RT relate to the requirement to "add back" certain related entity expenses?**

Related entity interest, rent, management fees, and intangible expenses must be "added back" in the taxpayer's computation of Wisconsin income.

Taxpayers who have paid, accrued, or incurred interest, rent, management fees, or intangible expenses to a related entity must add those expenses back to their federal income (as an addition modification) in computing Wisconsin income. Then, if certain conditions are met, the taxpayer may claim a deduction (as a subtraction modification) for these expenses. One of these conditions is the filing of Schedule RT as prescribed by the department, except where the \$100,000 threshold exception applies.

If you have related entity interest, rent, management fees, or intangible expenses but aren't required to file Schedule RT, you must still refer to Schedule RT, Part II and to the Schedule RT instructions for guidelines to determine if those expenses meet the necessary conditions to be deducted.

## 4. **How do the Schedule RT requirements apply to pass-through entities?**

A pass-through entity must file Schedule RT if the entity is reporting expenses on its Wisconsin return which are paid, accrued, or incurred to a related entity and those expenses are of the type described on Schedule RT. The \$100,000 threshold is determined at the pass-through entity level. It does not matter if those expenses are deducted against income taxed at the entity level or if they are deducted against income passed through to the entity's shareholders, partners, members, or beneficiaries.

A shareholder, partner, member, or beneficiary of a pass-through entity is not required to file Schedule RT to disclose expenses that the pass-through entity has already disclosed on Schedule RT.

**5. How do the Schedule RT requirements affect transactions involving disregarded entities?**

A disregarded entity, such as a single member limited liability company (SMLLC), is not considered a separate taxpayer from its owner for purposes of Wisconsin income or franchise taxes. Thus, a transaction between a disregarded entity and its owner is not required to be reported on Schedule RT.

**6. Is it sufficient to enter "available upon request" on Schedule RT?**

No. Lines which indicate "available upon request" will be treated as if they are blank.

**7. What supporting documentation is required to be filed with Schedule RT?**

If there is not enough space on Schedule RT to list all entities to which you paid, accrued, or incurred expenses, submit with Schedule RT a supplemental schedule to identify those additional entities and provide the information required on Schedule RT regarding those expenses.

You may also submit any other documentation you believe would enhance the department's understanding of the transactions. However, this additional documentation is not required.

**8. I'm on a cash basis. On Schedule RT, do I have to report expenses I incurred this year but won't deduct until next year?**

You do not need to report the expense on Schedule RT until the taxable year in which you deduct it for federal income tax purposes.

**9. Do I need to file more than one Schedule RT for the taxable year?**

You do not have to file more than one Schedule RT for a taxable year. If there is not enough space on Schedule RT to list all entities to which you paid, accrued, or incurred expenses, submit with Schedule RT a supplemental schedule to identify those additional entities and to provide the information required on Schedule RT regarding expenses paid, accrued, or incurred to those additional entities.

**10. Should the Schedule RT amounts be before or after applying the apportionment percentage?**

Enter the amounts before applying the apportionment percentage. However, note that for purposes of determining the \$100,000 threshold exception, the apportioned amounts are used (See Question 2).

**11. What is the due date for filing Schedule RT?**

You must file Schedule RT by the due date of your Wisconsin return for the year in which the expense is reported for tax purposes, including extensions. If you do not file under extension and forget to file Schedule RT with your original return, the department will accept Schedule RT as timely if it is filed with an amended return by the extended due date as if the original return was filed under extension. For example, if a calendar year corporation is required to file Schedule RT for 2019 and filed its return on April 15, 2020 without Schedule RT, the corporation would have until November 15, 2020 to file Schedule RT with an amended return.

**Caution:** The department will not accept Schedule RT if it is filed after the extended due date of your Wisconsin return.

**12. What happens if Schedule RT is not filed in cases where it is required?**

A Wisconsin deduction will not be allowed for related entity interest, rent, management fees, and intangible expenses if a taxpayer fails to report them on Schedule RT when required.

If any interest, rent, management fee, or intangible expense is not allowed as a deduction because the taxpayer failed to file Schedule RT, the related entity to whom the taxpayer paid, accrued, or incurred the expense may exclude the resulting income from its Wisconsin income. In order for this exclusion to apply, the taxpayer must complete Schedule RT-1, *Statement of Disallowed Related Entity Expenses*, and provide it to the related entity. The related entity must file the completed Schedule RT-1 with his, her, or its return to substantiate the amount excluded. (The related entity may file an amended return to claim this exclusion.)

**13. Can I file Schedule RT on an amended return after the due date?**

The department will not accept Schedule RT if it is filed after its due date. Thus, it is important to evaluate your records and identify any related entity expenses reportable on Schedule RT at the time you file your original return.

**14. What happens if a taxpayer discloses an incorrect amount of interest, rent, management fee, or intangible expense on Schedule RT?**

If the interest, rent, management fee, or intangible expense disclosed is less than the amount required to be disclosed, a deduction may be allowed to the extent of the amount disclosed. However, disclosure will be considered correct if the total amount disclosed (for amounts paid, accrued, or incurred to all related entities) is within 10% of the actual amount of that type of expense.

**15. Where can I find more written guidance about the Schedule RT requirements?**

See [Schedule RT](#), the [Schedule RT Instructions](#), [Schedule RT-1](#), and the [Schedule RT-1 Instructions](#).

## Applicable Laws and Rules

This document provides statements or interpretations of the following laws and regulations in effect as of December 17, 2019: Sections 71.30 and 71.80, Wis. Stats., and secs. Tax 2.61 and 3.01, Wis. Adm. Code, and 26 U.S. Code §§ 267(b) and 707(b).

Laws enacted and in effect after December 17, 2019, new administrative rules, and court decisions may change the interpretations in this document. Guidance issued prior to December 17, 2019, that is contrary to the information in this document is superseded by this document, pursuant to sec. 73.16(2)(a), Wis. Stats.

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