Consent Plan and Apportionment Schedule for a Controlled Group

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments
For the latest information about developments related to Schedule O (Form 1120) and its instructions, such as legislation enacted after they were published, go to IRS.gov/Form1120.

What’s New
Schedule O (Form 1120) and the Instructions for Schedule O (Form 1120) have been revised to reflect the replacement of the graduated corporate tax structure with a flat 21% corporate tax rate and the repeal of the corporate alternative minimum tax. These changes are effective for tax years beginning after December 31, 2017.

General Instructions
Purpose of Schedule
A corporation that is a component member (defined below) of a controlled group must use Schedule O to report the apportionment of certain tax benefits between all component members of the group. These members will be subject to limitations on the use of certain tax benefits for their applicable tax year. See Apportionment of tax-benefit items, later.

Also use Schedule O to indicate that the member filing this return consents to and represents that all the other component members of the controlled group:
• Are adopting an apportionment plan, effective for the current tax year;
• Are amending the existing apportionment plan;
• Are terminating the existing apportionment plan and not adopting a new plan;
• Are terminating the existing apportionment plan and adopting a new plan;
• Have no apportionment plan in effect and are not adopting an apportionment plan; or
• Already have an apportionment plan in effect.

Use Schedule O (Form 1120) (Rev. December 2012) to amend an existing apportionment plan for tax years beginning before January 1, 2018.

Who Must File
A corporation must file Schedule O with its income tax return, amended return, or claim for refund for each tax year that the corporation is a component member of a controlled group, even if (1) no apportionment plan is in effect, or (2) the amounts apportioned have not changed from the previous tax year. See Definitions and Special Rules, later.

Consolidated groups. If any of the component members of a controlled group also are members of a consolidated group, then the common parent of that consolidated group must file, as part of its consolidated income tax return, one Schedule O on behalf of the members of that consolidated group. No subsidiary of that consolidated group should file Schedule O on its own behalf. The Schedule O should contain the required consolidated information for all members of the consolidated group. See Identifying Information, later.

Exception. If all of the members of a parent–subsidiary controlled group that are required to file a U.S. tax return join in filing the same consolidated tax return, then the parent of that group does not have to file Schedule O on behalf of the group.

Completing and Filing Schedule O
In completing Schedule O, the following apply.

• The filing of Schedule O by a component member provides the required information as to the status of the group’s apportionment plan. Such information must indicate, when applicable, whether all the component members of the controlled group are adopting, amending, or terminating an apportionment plan.
• If all such members complete the required written agreement setting forth the terms of the adopted or amended apportionment plan or an agreement to terminate a previously adopted plan, then each member of that group may rely on this agreement as the member’s basis for representing on its Schedule O that the other component members of the group also have consented to adopting, amending, or terminating the apportionment plan.
• The agreement must be signed by a person authorized to sign on behalf of each component member of the controlled group and retained. No member should attach this agreement (or a copy of it) to their federal income tax returns. Each component member must keep, as part of its records, either the original or a copy of the signed agreement. The agreement must contain the group’s apportionment methodology (for example, percentages) for each tax-benefit item that is apportioned.

Definitions and Special Rules
Types of Controlled Groups
Parent–subsidiary group. A parent–subsidiary group is one or more chains of corporations connected through stock ownership with a common parent corporation if:
• Stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of shares of all classes of stock of each of the corporations, except the common parent corporation, is directly or
indirectly owned by one or more of the other corporations; and

- The common parent corporation directly or indirectly owns stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of shares of all classes of stock of at least one of the other corporations, excluding, in computing such voting power or value, stock owned directly by such other corporations.

For purposes of determining whether a corporation is a member of a parent–subsidiary controlled group within the meaning of section 1563(a) (1), stock owned by a corporation means:

- Stock owned directly by the corporation, and
- Stock constructively owned by that corporation under sections 1563(e) (1), (2), and (3).

**Brother–sister group.** A brother–sister group generally is two or more corporations where the same five or fewer persons who are individuals, estates, or trusts directly or indirectly own stock possessing:

- At least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of shares of all classes of the stock of each corporation (the 80% test), and
- More than 50% of the total combined voting power of all classes of stock entitled to vote or more than 50% of the total value of shares of all classes of stock of each corporation, taking into account the stock ownership of each such person only to the extent such stock ownership is identical with respect to each such corporation (the 50% test).

For purposes of allocating the accumulated earnings credit, a brother–sister group is defined using only the 50% test above.

For purposes of determining whether a corporation is a member of a brother–sister controlled group within the meaning of section 1563(a) (2), stock owned by a person who is an individual, estate, or trust includes:

- Stock owned directly by such person, and
- Stock constructively owned under section 1563(e).

**Combined group.** A combined controlled group is three or more corporations each of which is a member of either a parent–subsidiary group or a brother–sister group, and at least one of which is both the common parent of a parent–subsidiary group and also a member of a brother–sister group.

**Life insurance companies only group.** Two or more life insurance companies subject to tax under section 801 which are members of any parent–subsidiary, brother–sister, or combined controlled group will be treated as a controlled group separate from any other type of controlled group to which these corporations would otherwise belong if they were not life insurance companies. The life insurance companies that make up a life insurance controlled group do not have to be in a direct ownership relationship with each other.

**Example.** Life insurance companies Corporation X and Corporation Z make up a life insurance company only group, where Corporation X, a life insurance company, owns all the stock of Corporation Y, a non-life insurance company, and Corporation Y, a non-life insurance company owns all the stock of Corporation Z, a life insurance company.

**Exception for life–nonlife consolidated group.** The rule above does not apply to any life insurance company that is a member (whether eligible or ineligible to join in filing a consolidated return) of a life–nonlife affiliated group for which a section 1504(c)(2) election is in effect. Instead, an eligible life insurance company will be treated as a member of a life–nonlife consolidated group, and an ineligible life insurance company will be treated as a member of a life–nonlife controlled group (deemed to constitute a parent–subsidiary controlled group).

**Component Member**

A corporation qualifies as a component member of a controlled group, for a tax year, if the corporation:

- Is not a member of the controlled group on the applicable December 31 testing date (defined below), but is treated as an additional member (defined below); or
- Is a member of the controlled group on the applicable December 31 testing date and is not treated as an excluded member (defined below).

In general, in determining if a member of a controlled group is a component member of that group, the applicable tax year of that corporation must be tested to determine if it was a member of the controlled group for at least half the number of days in its testing period. Also, in order to determine the applicable tax year of the member being tested, the group's testing date must be determined. See Testing date and Testing period, later.

**Note.** If a controlled group has an apportionment plan in effect and some of the members of that controlled group join in filing a consolidated return, then the members of that consolidated group are treated together as if they were a single member of the controlled group. If a controlled group does not have an apportionment plan in effect and any of the members of that group join in filing a consolidated return, then each member of that consolidated group will be treated as a separate member of the controlled group.

**Additional member.** A member of a controlled group is treated as an additional member if the corporation:

- Was a member of the controlled group at any time during a calendar year,
- Was not a member of the controlled group on that testing date,
- Was a member of the controlled group for at least one-half the number of days of its testing period, and
- Is not an excluded member (defined next).

Any member of a controlled group that is treated as an additional member also is treated as a component member of that group.

**Excluded member.** A corporation is treated as an excluded member of a controlled group on the December 31 testing date for its tax year that includes that December 31 testing date, if the corporation is:

- A member of such group for less than one-half the number of days in its testing period,
- Exempt from tax under section 501(a) (except a corporation which is subject to tax on its unrelated business taxable income under section 511) or 521 for such year,
A foreign corporation not subject to tax under section 882(a) for such tax year,
• A life insurance company subject to tax under section 801 other than either a life insurance
corporation X. Corporations P, S, and corporation S. Domestic corporation S
owns all of the stock of domestic
corresponds to the conditions for being a
component member, that corporation
is a component member of the group.

Example. Domestic corporation P
owns all of the stock of domestic
corporation S. Domestic corporation S
owns all of the stock of foreign
corporation F. Foreign corporation F
owns all of the stock of domestic
corporation X. Corporations P, S, and
X are component members of a
controlled group.

Exception. A corporation that (1)
was included in a controlled group at
any time during its tax year, (2) was
not included in that controlled group
on the group’s December 31 testing
date, and (3) was not included in the
controlled group for at least half the
number of days of its testing period, is
not treated as a component member,
additional member, or excluded
member.

Example. For years prior to 2018,
Corporation X has been a component
member of controlled group XYZ.
Corporations X, Y, and Z do not file
consolidated tax returns. Corporation
X is on a calendar tax year. On
February 28, 2018, Corporation X was
sold to an unrelated party that is not a
member of any consolidated group.
Corporation X remained in existence
throughout its entire 2018 calendar
year. For the period from January 1,
2018, through February 28, 2018,
Corporation X is a member of that
controlled group which includes
Corporations Y and Z and which has a
testing date of December 31, 2018.
However, Corporation X is not a
component member, additional
member, or excluded member of that
group for that testing period.
Corporations Y and Z therefore are
not required to include any
information about Corporation X in
their respective 2018 Schedules O,
filed with their 2018 income tax
returns. Further, Corporation X does
not have to file Schedule O with its
2018 income tax return for the
controlled group that includes
Corporations Y and Z.

Testing date. The testing date is the
date for determining whether amounts
certain tax benefits otherwise
available to a corporation will be
limited in their use with regard to a
particular tax year of a component
member of a controlled group. Each
member of the group uses a
December 31 date, when possible, as
its testing date, whether such member
uses a calendar, or fiscal, tax year.
When a member of a controlled group
qualifies as a component member of
that group on a particular December
31 date, it will be required to limit its
use of certain specified tax benefits
with regard to a tax year that includes
a December 31 date. Each member of
the group uses the December 31 date
included within that member’s tax year
as its testing date, whether such member
uses a calendar or fiscal tax
year. However, if a component
member of a controlled group has a
short tax year that does not include a
December 31 date, then the last day
of that short tax year will be the testing
date for that member. See Special
allocation rules for a short tax year,
later. Each member of a controlled
group will apply those limitations to
that tax year that is governed by the
applicable December 31 testing date
applied to that group.

Testing period. The testing period is
the time period for determining
whether a particular member of a
controlled group qualifies either as a
component member or as an
excluded member. The testing period
begins on the first day of that
member’s tax year and ends on the
day before its testing date. However,
for a component member having a
short tax year not including a
December 31 date, the last day of its
short tax year is deemed to function
as the December 31 testing date for
that member only. For a member on a
full fiscal tax year, the portion of its
tax year beginning on the December 31
testing date and ending on the last
day of its tax year is not taken into
account for determining its status
either as a component member or as
an excluded member. In determining
how many days comprise a member’s
testing period, the group takes into
account the day that the member is
sold, but does not take into account
either the day that such member is
acquired or the member’s December
31 testing date.

Overlapping Groups
If a corporation is a component
member of more than one controlled
group with respect to any tax year,
that corporation will be treated as a
component member of only one
controlled group. The determination
as to the group of which such
corporation is a component member
will be made under regulations
prescribed by the Secretary.

Excluded Stock
To be a member of a controlled group,
a corporation cannot be connected
through stock ownership based on
“excluded stock.” Excluded stock includes:
• Nonvoting stock which is limited
and preferred as to dividends,
• Treasury stock, and
• Stock which is treated as excluded
stock under section 1563(c)(2)(A) for
a parent–subsidiary controlled group
or section 1563(c)(2)(B) for a brother–
sister controlled group.

Apportionment Plan
An apportionment plan is an
agreement between the component
members of a controlled group for
apportioning certain corporate tax
benefits among the members of that
group. By contrast, a tax-sharing
agreement is an agreement entered
into between members of an affiliated
group of corporations which have
joined in the filing of a consolidated
tax return. Such an agreement
generally provides that the members
of the affiliated group will compensate
each other for certain tax benefits
incurred by members separately and
shared by all members on the
consolidated tax return.
An apportionment plan becomes effective for a controlled group when it is adopted by all the component members of that group for their tax years which are subject to the same December 31 testing date. Once the members of a controlled group adopt an apportionment plan, it remains in effect until it is terminated.

**Amending or terminating an apportionment plan.** An apportionment plan is amended when the same component members (for example, when no component members have left or joined the group during their testing periods governed by the applicable December 31 testing date) make any different apportionment of the specified tax-benefit items among themselves.

An apportionment plan is terminated when each component member of the controlled group consents or is deemed to consent to the termination of that plan. Each such member is deemed to have consented to the termination of the plan for a tax year if:

- The controlled group ceased to remain in existence (within the meaning of section 1563) as of the testing date for that calendar year,
- A corporation that was a component member of the group on the testing date in the preceding tax year is not a component member on the testing date in the current tax year, or
- A corporation that was not a component member of the group on the testing date in the preceding tax year is a component member on the testing date in the current tax year.

**Exception.** If the members of a consolidated group are treated as if they are one component member, then changes as to the members which belong to that consolidated group (as long as that consolidated group remains in existence within the meaning of Regulations section 1.1502-75(d)) will not serve to terminate the group’s apportionment plan.

**Apportionment of Tax-Benefit Items**

**Apportionment plan in effect.** If the component members of a controlled group have an apportionment plan in effect, they must apportion the specified tax-benefit items, such as the accumulated earnings credit, according to the terms of that plan. The component members of a group are not required to apportion equally any tax-benefit item among each of them. Nor is any component member required to adopt the same percentage of apportionment for each tax-benefit item. A group therefore may apportion all, some, or none of the amount of any these tax-benefit items to a component member. However, except for a member with a short tax year that does not include a December 31 testing date, the total amount of a tax-benefit item apportioned to all the component members of the group cannot be more than the total amount of a tax item that would be allowed to a corporation that is not subject to the limitations imposed on the members of a controlled group. See Special allocation rules for a short tax year below.

**No apportionment plan in effect.** If no apportionment plan is adopted or in effect, the component members of a controlled group must divide the amount of any tax-benefit item equally among themselves (without regard to whether any members also are members of a consolidated return group).

**Special allocation rules for a short tax year.** Special allocation rules apply to the accumulated earnings credit, if a component member has a short tax year that does not include a December 31 testing date. A corporation’s tax year will end before the last day of its annual tax year and will have a short tax year if:

- The corporation is sold to a consolidated group, or
- The corporation is merged or liquidated, including a deemed liquidation resulting from a section 338 election.

**Example.** For years prior to 2018, Corporation X has been a member of controlled group XYZ and has a calendar tax year. On May 31, 2018, Corporation X is liquidated. Corporation X has a short tax year that begins on January 1, 2018, and ends on May 31, 2018. Corporation X therefore applies the special allocation rule to the accumulated earnings credit.

**Determining the amount to be apportioned.** A short-year member cannot use the group’s apportionment method for determining the amount of a tax-benefit item to be apportioned to it for its short tax year, even though that method has been adopted by the group under its existing apportionment plan. Rather, the short-year member must divide the full amount of the tax-benefit item by the number of component members in the controlled group as of the last day of that member’s short tax year. That amount is the amount of that tax-benefit item to be allocated to that member (and only to that member).

The remaining component members will, in accordance with the terms of their apportionment plan, apportion a full amount of each specified tax-benefit item between those corporations which are the component members of the group as of the ensuing December 31 testing date.

See section 1561 and the related regulations for additional details regarding apportionment plans.

**Exceptions.** This special allocation rule does not apply if a component member has a short tax year that includes the December 31 testing date in its short tax year. For example, Corporation Y is a fiscal year taxpayer with a tax year ending on September 30. On January 31, 2018, Corporation Y is liquidated. Corporation Y’s tax year beginning on October 1, 2017, and ending on January 31, 2018, is not a short tax year within the meaning of section 1561(b). Thus, the normal apportionment rules apply.

This special allocation rule also does not apply if a member of a controlled group has a short tax year and is a member of a consolidated group. Instead, such corporation’s income for the short tax year is included in the consolidated return filed by the consolidated group for that corporation’s tax year.

**Specific Instructions**

**Identifying Information**

Component member filing Schedule O. On page 1, enter the name and employer identification number (EIN) of the component member filing this Schedule O.

In Part II, column (a), line 1, enter the component member’s name and
EIN. In column (b), enter the member's tax year ending date (Yr-Mo).

**Other component members of the controlled group.** For Part II, column (a), lines 2 through 10, and column (b), enter the corresponding information for each of the other component members of the controlled group, in the same manner as the member filing this Schedule O. If more space is needed, attach additional sheets.

**Consolidated groups.** If several component members also are members of a single consolidated group, then with respect to those members, in Part II, column (a) and column (b), enter only the information of the common parent of the consolidated group.

If any component members of the controlled group also are members of a consolidated group, the parent of such consolidated group should file only one Schedule O on behalf of all such members of the controlled group. Such form must contain the required information for each such member. See Regulations section 1.1561-3(a)(2).

### Part I. Apportionment Plan Information

**Line 1. Type of controlled group.** A component member of a controlled group must check the applicable box to indicate the type of group. For more information, see Types of Controlled Groups, earlier.

For a brother–sister controlled group, check box 1b whether that group is a brother–sister group for purposes of applying only the 50% test or for purposes of applying both the 80% and 50% tests.

**Line 2. Member status.** If a corporation was not a component member of the group for each day of its tax year, check box 2b and provide the required information. If the taxable year of this corporation does not include a December 31 date, a special allocation rule applies. See Special allocation rules for a short tax year, earlier.

**Line 3. Consent and represent.** If all the component members consent to adopt an apportionment plan, check box 3a. By checking box 3a, this corporation is consenting to the adoption of an apportionment plan and also is representing that the other component members of the group also are consenting to the adoption of that plan. See Completing and Filing Schedule O, earlier.

If all the component members consent to amend an apportionment plan, check box 3b. By checking box 3b, this corporation is consenting to the amendment of an apportionment plan and also is representing that the other component members of the group are consenting to the amendment of that plan. However, to amend a plan both of the following conditions must be satisfied.

- The controlled group already has an apportionment plan in effect, and
- There has been no change in the component-member composition of the group from the previous taxable year.

If the component members of a group are either adopting a new apportionment plan or amending an existing apportionment plan that involves prior tax years of those component members, at least one year must remain on each of the statutes of limitations for assessing a tax deficiency against all of the component members of the group for such prior tax years. See the instructions, below.

If the apportionment plan for the component members of a controlled group is terminated:

- Check box 3c if the remaining component members choose not to adopt (or are not able to adopt) a new apportionment plan, or
- Check box 3d if the remaining component members choose to adopt a new apportionment plan.

With regard to box 3c, the remaining component members will not be able to adopt a new apportionment plan if, for example, such component members have left the group.

**Example.** For years prior to 2018, Corporation X has been a member of controlled group XYZ and has a calendar tax year. Corporations X, Y, and Z are component members of a controlled group and each has a calendar tax year. On August 31, 2018, X is sold to an unrelated party. Even though X will not be a member of the group on its December 31, 2018, testing date, it is treated as an additional member of the group on that date. Consequently, for 2018 the XYZ controlled group must apportion the tax-benefit items according to the terms of its apportionment plan. Therefore, X, Y, and Z would each check box 3c on its 2018 Schedule O.

If box 3c or 3d is checked, complete Part II under either of the following circumstances.

- If a corporation that is joining or leaving the group still qualifies as a component member for its tax year, complete Part II according to the terms of any applicable apportionment plan.
- If a corporation that is joining or leaving the group will not qualify as a component member for its tax year, then, following the corporation’s name in column (a), enter the notation “(E)” for excluded member. In Part II, column (b), enter the ending date of the tax year (Yr-Mo) and enter -0- in the remaining columns, as applicable.

**Note.** Do not check more than one box on line 3. If a corporation does not adopt an apportionment plan, amend a previous apportionment plan, or terminate an existing apportionment plan, then skip line 3 and go to line 5.

**Line 4. Reason for termination of existing apportionment plan.** Check box 4a if all the component members of a controlled group are consenting to terminate the apportionment plan. Check box 4b if:

- The controlled group has ceased to remain in existence within the meaning of section 1563,
- A corporation that was a component member of the group on the testing date for the preceding tax year is no longer a component member in the current tax year, or
- A corporation that was not a component member of the group on the testing date for the preceding tax year is a component member for the current tax year.

**Line 5. Status of apportionment plan.** Check the applicable box to indicate the status of any apportionment plan of the controlled group.

- Check box 5a if the controlled group does not have an
apportionment plan in effect and is not
adopting one.
• Check box 5b if the controlled
group already has an apportionment
plan in effect and is not amending or
terminating this plan.

If box 5a is checked, then the
component members must share all
tax benefits equally, and tax-benefit
information is to be reported in Part II.

apportionment plan may not be
adopted or amended for a tax year of
a component member unless there is
at least one year remaining in the
statutory period (including any
extensions) for assessing a deficiency
against the corporation for that tax
year, but only where the tax liability for
such tax year of that corporation
would be increased by adopting such
plan.

If there is less than one year
remaining in the statutory period, the
corporation must have entered into an
agreement with the IRS extending the
statutory period for the limited
purpose of assessing any deficiency
against that corporation for a tax year
affected by the adoption or the
amendment of an apportionment plan.
See Regulations section 1.1561-3(c)
(2).

Note. To amend a plan for a tax year
prior to the 2018 tax year, use
Schedule O (Form 1120) (Rev.
December 2012).

Line 7. If a component member of a
controlled group has a short tax year
that does not include a December 31
date, check box 7. If a corporation
checks box 7, it does not have to
determine whether the component
members of a controlled group are
subject to a penalty for failure to pay
the correct amount of estimated tax
under section 6655(g), those
component members of a controlled
group must combine their taxable
incomes for their tax years that were
subject to the same December 31
testing date. If that amount is at least
$1 million for any tax year during the
testing period (as defined in section
6655(g)(2)(B)(i)), those members
must then divide that $1 million
amount equally unless they have an
apportionment plan in effect.

Column (d). For purposes of
determining whether the component
members of a controlled group are
subject to a penalty for failure to pay
the correct amount of estimated tax
under section 6655(g), see
Special allocation rules for a short tax year, earlier.

Part II. Apportionments

Brother–sister controlled group. For purposes of apportioning the
amounts included in column (c), determine the component members of
a brother–sister controlled group, using only the 50% test as provided in
section 1563(a)(2). For purposes of apportioning the amounts included in
column (d) and, except as provided elsewhere in the Internal Revenue
Code, in column (e), determine the
component members of a brother–
sister controlled group using both the
50% and 80% tests as provided in
section 1563(f)(5). See Brother–sister
group, earlier.

Column (a). If a corporation qualifies
as a component member of a brother–
sister controlled group, solely
because it satisfies only the 50%
ownership affiliation test, insert the
notation “(50)” after that corporation's
name. If a corporation is a component
member of that group because it
satisfies both the 50% and 80%
ownership affiliation tests, no notation
is necessary.

Column (c). The component
members of a controlled group may
allocate the $250,000 accumulated
earnings credit unequally if they adopt
an apportionment plan or have an
apportionment plan in effect.

Note. If any component member of a
controlled group is the type of service
corporation described in section
535(c)(2)(B), the amount to be
apportioned among the component
members is $150,000 (rather than
$250,000).

Column (d). For purposes of
determining whether the component
members of a controlled group are
subject to a penalty for failure to pay
the correct amount of estimated tax
under section 6655(g), those
component members of a controlled
group must combine their taxable
incomes for their tax years that were
subject to the same December 31
testing date. If that amount is at least
$1 million for any tax year during the
testing period (as defined in section
6655(g)(2)(B)(i)), those members
must then divide that $1 million
amount equally unless they have an
apportionment plan in effect.

Column (e). Enter each component
member's share of any other
tax-benefit items not included in
column (c) or (d). Provide the
applicable Internal Revenue Code
section followed by the amount
apportioned to that member.

Note. Do not include on Schedule O
an apportionment among the
component members of any
deduction for certain depreciable
property for which a section 179
expense election has been made.
Report this apportionment as required
under section 179. See Regulations
section 1.179-2(b)(7).