



- year ending December 31, 2014 (the “2014 Notice”). A copy of the 2014 Notice is attached as Exhibit B.
6. The 2014 Notice imposed \$1,032,421 in late-payment penalty.
  7. The 2014 Notice imposed \$917,656 in interest as of July 30, 2019.
  8. On July 30, 2019, the Department issued a Notice of Deficiency to PepsiCo asserting additional tax due of \$5,605,898 (exclusive of associated interest and penalties) for the tax year ending December 31, 2015 (the “2015 Notice”). A copy of the 2015 Notice is attached as Exhibit C.
  9. The 2015 Notice imposed \$925,215 in late-payment penalty.
  10. The 2015 Notice imposed \$683,664 in interest as of December 13, 2016.
  11. Both the 2014 Notice and 2015 Notice (collectively, the “Notices of Deficiency”) result from the same Illinois audit (audit identification number A1907677184). Unless otherwise noted, all present tense statements of fact and law herein also apply to the time periods subject to this audit and covered by the Notices of Deficiency.
  12. The Notices of Deficiency amount to \$10,768,003 of tax deficiency in the aggregate, exclusive of penalty and interest.
  13. This Tribunal has original jurisdiction over all Department determinations reflected on Notices of Deficiency, among other notices, where the amount at issue exceeds \$15,000, exclusive of penalties and interest. 35 ILCS 1010/1-45.
  14. Two related petitions are currently pending in this Tribunal -- a petition for tax years ending December 31, 2010 through December 31, 2011, Case No. 16 TT 82 (the “First Petition”), and a petition for tax years ending December 31, 2012 through December 31, 2013, Case No. 17 TT 16 (the “Second Petition”).

15. Certain issues presented in the First Petition and in the Second Petition are similar to issues presented here.

## **BACKGROUND**

16. PepsiCo is a global food and beverage company.
17. PepsiCo's core business is the manufacture, distribution and sales of consumer food, snack and beverage products under the Pepsi, Lays, Gatorade, Quaker, and Tropicana brands, among others.

### Pepsi Bottling Group Acquisition and Integration

18. On or about February 26, 2010, PepsiCo purchased The Pepsi Bottling Group ("PBG") and affiliated entities.
19. On or about February 26, 2010, PepsiCo purchased PepsiAmericas, Inc. ("PAS") and affiliated entities.
20. PBG and PAS were the two largest independent bottlers of Pepsi products prior to their acquisition by PepsiCo.
21. At the time of their acquisition, PBG and PAS together employed more than 84,000 people and owned more than \$18 billion in assets to carry on their bottling and distribution activities.
22. As a result of the PBG and PAS acquisitions, PepsiCo acquired more than 70 domestic and 120 international entities through which the independent bottlers conducted operations.
23. In order to integrate the new entities, PepsiCo undertook a global restructuring of the acquired bottling operations.
24. PepsiCo consolidated certain foreign operations under Frito-Lay North America, Inc. ("FLNA").

25. PepsiCo formed PepsiCo Global Mobility, LLC (“Global Mobility”) on June 23, 2010 as a single member LLC owned by FLNA to employ foreign-based U.S. expatriates.
26. Global Mobility causes its foreign-based U.S. expatriate employees to perform services overseas for a variety of PepsiCo businesses for a limited period of time, typically lasting two to four years.
27. Global Mobility is a disregarded entity treated as a division/branch of FLNA for federal tax purposes.
28. Approximately 32 of the acquired domestic entities, as well as several PepsiCo holding companies, were eliminated as part of the restructuring.

#### Royalty Income

29. During PepsiCo’s 2014 Tax Year (“Tax Year 2014”), members of PepsiCo’s Illinois combined group received royalty income in the following amounts: \$218,585,324 total domestic royalty income; and \$533,299,942 total foreign royalty income.
30. During PepsiCo’s 2015 Tax Year (“Tax Year 2015”), members of PepsiCo’s Illinois combined group received royalty income in the following amounts: \$315,126,364 total domestic royalty income; and \$567,425,500 total foreign royalty income.
31. PepsiCo owns and manages the intellectual property associated with the royalty income at issue in Tax Year 2014 and Tax Year 2015 (collectively, the “Tax Years at Issue”) from its commercial domicile located in Purchase, New York.

#### **PEPSICO’S ILLINOIS TAX FILINGS**

32. PepsiCo, along with its unitary subsidiaries, timely filed an Illinois Income and Replacement Tax Return on a combined basis (an “Illinois Combined Return”) for the Tax Years at Issue.

33. Section 1501(a)(27) of the Illinois Income Tax Act, 35 ILCS 5/101, *et seq.* (the “IITA”) excludes affiliates with more than 80% of their business activity, as measured by property and payroll, outside the United States from an Illinois Combined Return.
34. More than 80% of FLNA’s business activity, property and payroll, is outside the United States.
35. FLNA was properly excluded from PepsiCo’s 2014 and 2015 Illinois Combined Returns.
36. FLNA does not own or maintain property or payroll in Illinois.
37. FLNA did not file separate Illinois tax returns for the Tax Years at Issue.
38. FLNA was not required to file separate Illinois tax returns for the Tax Years at Issue.

#### **COUNT I**

#### **THE INCLUSION OF FLNA IN PEPSICO’S ILLINOIS COMBINED GROUP IS IMPROPER**

39. PepsiCo hereby restates and re-alleges the allegations contained in paragraphs 1-38 as if fully set forth herein.
40. In the 2014 Notice, the Department improperly included FLNA in the 2014 Illinois Combined Return.
41. In the 2015 Notice, the Department improperly included FLNA in the 2015 Illinois Combined Return.
42. The IITA requires members of a unitary business group to file a combined report. 35 ILCS 5/502(e).
43. A unitary business group is defined as “a group of persons related through common ownership whose business activities are integrated with, dependent upon and contribute to each other.” 35 ILCS 5/1501(a)(27).

44. A unitary business group does not include “those members whose business activity outside the United States is 80% or more of any such member’s total business activity.” *Id.* (referred to as “80/20 Companies”).
45. For purposes of determining the amount of business activity conducted outside the United States, Illinois law requires taxpayers who apportion their income pursuant to IITA Section 304(a) to use the property and payroll factor rules set forth in Section 304(a); the sales factor is ignored for purposes of determining business conducted outside the United States. 86 Ill. Admin. Code 100.9700(c).
46. Illinois’s 80/20 Company computation requires taxpayers to compute a property fraction and a payroll fraction, the numerators of which represent U.S. property and payroll, respectively, and the denominators represent worldwide figures. 86 Ill. Admin. Code 100.9700(c)(2)(B).
47. Illinois respects the federal entity classification rules such that entities that are disregarded for federal income tax purposes are also disregarded for Illinois income tax purposes. 35 ILCS 5/403(a); 35 ILCS 5/1501(a)(4).
48. Global Mobility, a single member LLC, is disregarded for federal income tax purposes.
49. Global Mobility is treated as a division of FLNA, its single member, for federal income tax purposes.
50. Global Mobility’s property and payroll factors are considered the property and payroll factors of FLNA, its sole member, for purposes of Illinois’s 80/20 Company computation.
51. FLNA apportions its income pursuant to IITA Section 304(a).
52. More than 80% of FLNA’s business activity, measured by FLNA’s property and payroll, is outside the United States during the Tax Years at Issue.

53. Illinois law prohibits the inclusion of FLNA in PepsiCo's 2014 Illinois Combined Return.
54. Illinois law prohibits the inclusion of FLNA in PepsiCo's 2015 Illinois Combined Return.
55. The Department's inclusion of FLNA in PepsiCo's 2014 Illinois Combined Return is in error.
56. The Department's inclusion of FLNA in PepsiCo's 2015 Illinois Combined Return is in error.
57. The Department made a variety of additional adjustments related to the inclusion of FLNA in the 2014 Illinois Combined Return, all of which must similarly be reversed.
58. The Department made a variety of additional adjustments related to the inclusion of FLNA in the 2015 Illinois Combined Return, all of which must similarly be reversed.

WHEREFORE, PepsiCo prays the Tax Tribunal find and enter an order determining that the Department's inclusion of FLNA in the 2014 and 2015 Illinois Combined Returns is improper and the Department's assessments with respect to this issue, along with any penalties and interest, be abated in their entirety, along with such other and further relief the Tax Tribunal deems appropriate.

## **COUNT II**

### **RE-CHARACTERIZATION OF CERTAIN ROYALTY INCOME AS APPORTIONABLE BUSINESS INCOME IS IMPROPER**

59. PepsiCo hereby restates and re-alleges the allegations contained in paragraphs 1-58 as if fully set forth herein.
60. PepsiCo received royalty income from unrelated third-parties, as well as from certain related affiliates outside the Illinois combined group.
61. The Department has refused to include royalties in PepsiCo's sales factor denominator and thus has denied business income apportionment factor relief.

62. As a result, the royalty income received by PepsiCo cannot be considered apportionable business income under Illinois law.
63. Illinois defines “business income” as “all income that may be treated as *apportionable* business income under the Constitution of the United States.” 35 ILCS 5/1501(a)(1) (emphasis added); *see also* Ill. Admin. Code tit. 86, § 100.3010(a)(2).
64. The term “non-business income” means “all income other than business income [...].” 35 ILCS 5/1501(a)(13); *see also* Ill. Admin. Code tit. 86, § 100.3010(a)(3)(B).
65. To the extent PepsiCo’s royalty income is excluded from the Illinois apportionment factor, such income must be excluded from PepsiCo’s “apportionable business income under the Constitution of the United States” pursuant to 35 ILCS 5/1501(a)(1).
66. The royalty income PepsiCo received from unrelated third-parties and from related affiliates must be excluded from apportionable business income on the 2014 and 2015 Illinois Combined Returns.
67. PepsiCo maintains its commercial domicile in New York and owns/manages its intellectual property from this location.
68. All of the royalties PepsiCo received during Tax Year 2014 and Tax Year 2015 must be allocated outside Illinois.
69. The royalties PepsiCo received cannot be included in PepsiCo’s Illinois apportionable business income without also being included in the denominator of PepsiCo’s sales factor for Illinois apportionment factor purposes. *See* 86 Ill. Admin. Code 100.3370(a)(2)(B); and 100.3370(a)(1)(C) (Illinois apportionment rules define “sales” to include “fees, commissions, and similar items.”).



70. U.S. Constitutional principles require that items of income included in the apportionable tax base must also be represented in the apportionment factor utilized to apportion such income. See, e.g., *Container Corporation of America v. Franchise Tax Board*, 463 U.S. 159, 169 (1983) (“the factor or factors used in the apportionment formula must actually reflect a reasonable sense of how income is generated.”); *Goldberg v. Sweet*, 488 U.S. 252, 262 (1989) (a state may tax “only that portion of the revenues from the interstate activity which reasonably reflects the in-state component of the activity being taxed.”); and *Homart Development Co. v. Norberg*, 529 A.2d 115 (R.I. 1987) (“The inclusion of this income in Homart’s net-income calculation for apportionment purposes necessarily requires that the payroll, property, and receipt factors that gave rise to it be included in the apportionment equation also.”).

WHEREFORE, PepsiCo prays the Tax Tribunal find and enter an order determining that the Department’s re-characterization of certain royalty income as apportionable business income on the 2014 and 2015 Illinois Combined Returns is improper, that such income is properly characterized as allocable income sourced entirely outside Illinois, and the Department’s assessments with respect to this issue, along with any penalties and interest, be abated in their entirety, along with such other and further relief the Tax Tribunal deems appropriate.

### **COUNT III**

#### **ADDBACK OF INTERCOMPANY INTEREST IN EXCESS OF SUBTRACTION IS IMPROPER**

71. PepsiCo hereby restates and re-alleges the allegations contained in paragraphs 1-70 as if fully set forth herein.
72. In the 2015 Notice, the Department removed from PepsiCo’s subtraction modification intercompany interest expense from an 80/20 company in the amount of \$350,043,317

pursuant to 35 ILCS 5/203(b)(2)(E-12).

73. Following this adjustment, the amount of intercompany interest added back to PepsiCo's Illinois combined base income exceeds intercompany interest subtracted by an amount equal to \$22,443,966.
74. An Illinois corporate taxpayer's taxable income must be modified by adding the sum of "[a]n amount *equal to the amount otherwise allowed as a deduction* in computing base income for interest paid, accrued, or incurred [...] to a person who would be a member of the same unitary business group but for the fact that the person is prohibited under Section 1501(a)(27) from being included in the unitary business group [...]." 35 ILCS 5/203(b)(2)(E-12) (emphasis added); *see also* 35 ILCS 5/203(b)(2)(W).
75. In this regard, the amount of interest expense added back to PepsiCo's taxable income must not exceed the amount allowed as a subtraction under Illinois law.
76. Therefore, the mismatch of intercompany interest expense addback and intercompany interest expense subtractions must be adjusted to net to zero.

WHEREFORE, PepsiCo prays the Tax Tribunal find and enter an order determining that the addback of interest company interest expense in excess of allowed intercompany interest expense subtractions is improper, and the Department's assessments with respect to this issue, along with any penalties and interest, be abated in their entirety, along with such other and further relief the Tax Tribunal deems appropriate.

#### **COUNT IV**

#### **IMPOSITION OF PENALTIES IS IMPROPER**

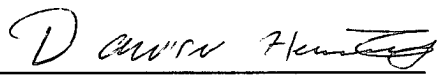
77. PepsiCo hereby restates and re-alleges the allegations contained in paragraphs 1-76 as if fully set forth herein.
78. Any penalties assessed must be abated for reasonable cause.

79. The Department has assessed late payment penalties in the 2014 Notice.
80. The Department has assessed late payment penalties in the 2015 Notice.
81. Under Illinois law, no penalties shall be imposed on a taxpayer if his failure to pay tax was due to reasonable cause. 35 ILCS 735/3-8.
82. Under Illinois regulations, “the most important factor to be considered in making a determination to abate a penalty will be the extent to which the taxpayer made a good faith effort to determine his proper tax liability and to file and pay his proper liability in a timely fashion.” 86 Ill. Admin. Code § 700.400(b).
83. A taxpayer’s filing history is also considered in determining whether the taxpayer acted in good faith. 86 Ill. Admin. Code §700.400(d).
84. PepsiCo made a good faith effort to determine its proper tax liability and to file and pay its proper tax liability in a timely fashion.
85. PepsiCo exercised ordinary business care and prudence in determining its proper tax liability and filing and paying its proper tax liability in a timely fashion.
86. PepsiCo has a history of timely filing Illinois corporate income tax returns and paying Illinois corporate income tax in a timely manner.
87. The late payment penalties imposed by the Department must be abated for reasonable cause.

WHEREFORE, PepsiCo prays the Tax Tribunal find and enter an order that any penalties assessed by the Department be abated in full and such other and further relief as the Tax Tribunal deems appropriate in this matter.

(the remainder of this page is intentionally left blank; signature page follows)

Date: September 24, 2019

By:   
Attorney for Petitioner,  
PepsiCo, Inc.

Theodore R. Bots (ARDC No. 6224515)  
David A. Hemmings (ARDC No. 6307850)  
Baker & McKenzie LLP  
300 E. Randolph Street, Ste. 5000  
Chicago, IL 60601  
Telephone: (312) 861-8845  
Fax: (312) 698-2004  
theodore.bots@bakermckenzie.com  
drew.hemmings@bakermckenzie.com

*Attorneys for Petitioner, PepsiCo, Inc.*

# **EXHIBIT A**



# IL-2848 Power of Attorney



### Read this information first

Submit your completed form to [REV.POA@illinois.gov](mailto:REV.POA@illinois.gov). Do not attach to your tax return. You also may be required to provide a copy of this form to a representative of the Illinois Department of Revenue. This power of attorney automatically expires 10 years from the date it is signed. If you do not properly complete this form, you will be required to submit a new Form IL-2848. See the instructions for additional information. **Note:** A separate form may need to be completed for each taxpayer. An asterisk (\*) below indicates a required field.

### Step 1: Complete the following taxpayer information

|                                 |        |            |  |
|---------------------------------|--------|------------|--|
| PepsiCo, Inc.                   |        |            | 13-1584302   |
| Name of individual or business* |        |            | Identification number (i.e., FEIN or SSN)* - All nine digits required. |
| 700 Anderson Hill Road          |        |            |  |
| Street address*                 |        |            |  |
| Purchase                        | NY     | 10577-1041 | Illinois Account ID (if known)   |
|                                 |        |            | ( 914 ) 253-3512   |
| City*                           | State* | ZIP*       | Daytime phone number*  |

### Step 2: Identify the authorized agent or fiduciary executing this form - Signature required in Step 6

Complete the following if the taxpayer is a corporation, partnership, trust, or estate (i.e., not an individual taxpayer) or if someone other than the taxpayer is authorizing the power of attorney and the taxpayer is an individual. If you are not the taxpayer and you already have been designated by the courts as power of attorney, do not complete this form. Instead complete Form IL-56, Notice of Fiduciary Relationship. See instructions for who can execute this form.

|                        |        |            |                           |
|------------------------|--------|------------|---------------------------|
| Charles F. Mueller     |        |            | Vice President            |
| Name*                  |        |            | Title*                    |
| 700 Anderson Hill Road |        |            | ( 914 ) 253-3512          |
| Street address*        |        |            | Daytime phone number*     |
| Purchase               | NY     | 10577-1041 | Chuck.Mueller@pepsico.com |
|                        |        |            | Email address             |
| City*                  | State* | ZIP*       |                           |

### Step 3: Identify the representative(s) - If more than two representatives, list the total number here: \_\_\_\_\_

Attach a copy of page one for every two additional representatives. (See instructions.) **Note:** If any representative listed is a person who is not an attorney, a certified public accountant, or an enrolled agent, you must complete the notary section of Step 6.

The taxpayer named above appoints the following representative as attorney-in-fact:

Theodore R. Bots

Name of individual\*

Check one:  Attorney  CPA  Enrolled agent

(if applicable)

Baker & McKenzie LLP

Name of firm, if applicable

6224515

Identification number (Attorney License No., PTIN, FEIN, or SSN)\* - See instr.

300 F. Randolph Street, Ste. 5000

Street address\*

Chicago IL 60601

City\* State\* ZIP\*

( 312 ) 861-8845 ( 312 ) 698-2004

Daytime phone number\* Fax number

Theodore.Bots@bakermckenzie.com

Email address

David A. Hemmings

Name of individual\*

Check one:  Attorney  CPA  Enrolled agent

(if applicable)

Baker & McKenzie LLP

Name of firm, if applicable

6307850

Identification number (Attorney License No., PTIN, FEIN, or SSN)\* - See instr.

300 F. Randolph Street, Ste. 5000

Street address\*

Chicago IL 60601

City\* State\* ZIP\*

( 312 ) 861-3711 ( 312 ) 698-2050

Daytime phone number\* Fax number

Drew.Hemmings@bakermckenzie.com

Email address

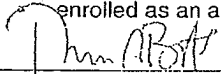
Check this box if you want to authorize the Department to send duplicate copies of notices to the representative listed above.

Check this box if you want to authorize the Department to send duplicate copies of notices to the representative listed above.

### Complete the following if a box above is checked to indicate that the representative is an attorney, CPA, or enrolled agent

I declare that I am **not** currently under suspension or disbarment and that I am

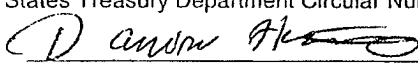
- a member in good standing of the bar of the highest court of the jurisdiction indicated below; or
- duly qualified to practice as a certified public accountant in the jurisdiction indicated below; or
- enrolled as an agent pursuant to the requirements of United States Treasury Department Circular Number 230.

 9/13/19

Signature of representative Date

Theodore R. Bots IL

Print name Jurisdiction (state(s), etc.)

 9/13/19

Signature of representative Date

David A. Hemmings IL

Print name Jurisdiction (state(s), etc.)

**Step 4: Revocation of power of attorney appointments**

This power of attorney revokes all powers of attorney on file with the Illinois Department of Revenue with respect to the same matters and years or periods covered. If you do not want to revoke prior powers of attorney, check this box:

**Step 5: Identify the tax matters and the type of appointment** — Designate the Tax Matters to which the power of attorney applies and the Type of Appointment.

**Tax Matters**

Corporation Income and Replacement Tax / Form IL-1120  
Tax Type/Tax Form(s) or Notices\*

December 2014  
Tax Year(s) or Filing Period(s)\*

Corporation Income and Replacement Tax / Form IL-1120  
Tax Type/Tax Form(s) or Notices

December 2015  
Tax Year(s) or Filing Period(s)

Tax Type/Tax Form(s) or Notices

Tax Year(s) or Filing Period(s)

**Type of Appointment** — Check either **General** or **Specific Appointment**. Do not check both boxes. See instructions.

**General Appointment**

The attorneys-in-fact named above shall have, subject to revocation, full power of attorney to perform any act that the principals can and may perform, including the authority to receive and discuss confidential information for the tax matters listed above.

**Specific Appointment**

The attorneys-in-fact named above shall have, subject to revocation, power of attorney to receive and discuss with the Illinois Department of Revenue confidential information for the tax matters listed above and to perform only those additional acts that the principals can and may perform designated below. (Check the following, as applicable.)

- Yes** Endorse or collect checks in payment of refunds.
- Yes** Receive checks in payment of any refund of Illinois taxes, penalties, or interest.
- Yes** Execute waivers (including offers of waivers) of restrictions on assessment or collection of deficiencies in tax and waivers of notice of disallowance of a claim for credit or refund.
- Yes** Execute consents extending the statutory period for assessments or collection of taxes.
- Yes** Delegate authority or substitute another representative.
- Yes** Execute offers in compromise or settlement of tax liability.
- Yes** Represent the taxpayer before the Illinois Department of Revenue in administrative hearings or the Illinois Independent Tax Tribunal (requiring representation by an attorney).
- Yes** Represent the taxpayer before the Illinois Department of Revenue in proceedings other than administrative hearings, such as proceedings before the Informal Conference Board or the Board of Appeals.
- Yes** Obtain a private letter ruling on behalf of the taxpayer.
- Yes** Other (Please describe.) \_\_\_\_\_

**Step 6: Signature (Required)** - This form must be signed by the taxpayer listed in Step 1 or the individual listed in Step 2.

If signing as a corporate officer, partner, fiduciary, or individual on behalf of the taxpayer, I certify that I have the authority to execute this power of attorney on behalf of the taxpayer.

*Charles F. Mueller*  
Taxpayer's Signature\*

Charles F. Mueller  
Print name\*

Vice President  
Title, if applicable

9/13/19  
Date\*

Spouse's signature (required if spouse is listed in Step 1)

Print name

Date

**Complete the following if any representative listed in Step 3 is a person other than an attorney, a certified public accountant, or an enrolled agent.**

If the power of attorney is granted to a person other than an attorney, a certified public accountant, or an enrolled agent, this document must be witnessed or notarized below. Please check and complete one of the following:

Any person signing as or for the taxpayer

- is known to and this document is signed in the presence of the two disinterested witnesses whose signatures appear here, **OR**

\_\_\_\_\_  
Signature of witness Date

\_\_\_\_\_  
Signature of witness Date

- appeared this day before a notary public and acknowledged this power of attorney as his or her voluntary act and deed.

\_\_\_\_\_  
Signature of notary Date

**Notary seal**



# **EXHIBIT B**



# Notice of Deficiency

for Form IL-1120, Corporation Income and Replacement Tax Return



#BWNKMGV  
#CNXX XX15 586X 4327#  
PEPSICO INC  
PEPSICO INC & AFFILIATES  
ATTN: TAX DEPT 3N LAUREN CARTER  
700 ANDERSON HILL RD  
PURCHASE NY 10577-1401

July 30, 2019



Letter ID: CNXXXX15586X4327

Taxpayer ID: 13-1584302

Audit ID: A1907677184

Reporting period: December 2014

Total Deficiency: \$7,112,181.94

Balance due: \$7,112,181.94

We have audited your account for the reporting period listed above. The members of the combined group are jointly and severally liable for the total balance due. The attached statement explains the computation of your deficiency and the balance due. **Illinois law requires that we notify you of this deficiency and your rights.**

If you agree to this deficiency, pay the total balance due as soon as possible to minimize penalty and interest assessed. Make your check payable to the "Illinois Department of Revenue", write your taxpayer ID on your check, and mail a copy of this notice along with your payment.

If you do not agree, you may contest this notice by following the instructions listed below.

- If the amount of this tax deficiency, exclusive of penalty and interest is more than \$15,000, or if no tax deficiency is assessed, but the total penalties and interest is more than \$15,000, file a petition with the Illinois Independent Tax Tribunal within 60 days of this notice. Your petition must be in accordance with the rules of practice and procedure provided by the Tribunal (35 ILCS 1010/1-1, et seq.).
- In all other cases, file a protest with us, the Illinois Department of Revenue, within 60 days of the date of this notice. If you file a protest on time, we must reconsider the proposed deficiency, and if requested, grant you or your authorized representative and administrative hearing. An administrative hearing is a formal legal proceeding conducted pursuant to the rules adopted by the Department and is presided over by an administrative law judge. Submit your protest on Form EAR-14, Format for Filing a Protest for Income Tax, (available on our website at [tax.illinois.gov](http://tax.illinois.gov)). If we do not receive your protest within 60 days, this deficiency will become final. A protest of this notice does not preserve your rights under any other notice.
- In any case, you may instead, under Sections 2a and 2a.1 of the State Officers and Employees Money Disposition Act (30 ILCS 230/2a, 230/2a.1), pay the total liability under protest using Form RR-374, Notice of Payment Under Protest (available on our website at [tax.illinois.gov](http://tax.illinois.gov)), and file a complaint with the circuit court for a review of our determination.

If you do not protest this notice or pay the assessment total in full, we may take collection action against you for the balance due which, may include levy of your wages and bank accounts, filing of a tax lien, or other action.

**Note:** If you are under bankruptcy protection, see the "Bankruptcy Information" section on the following page of this notice for additional information and instructions. If you have questions, call us at the telephone number shown below.

Sincerely,

David Harris  
Director

ILLINOIS DEPARTMENT OF REVENUE  
AUDIT BUREAU  
PO BOX 19012  
SPRINGFIELD IL 62794-9012  
217 524-2230

# Notice of Deficiency

for Form IL-1120, Corporation Income and Replacement Tax Return



#BWNKMGV  
#CNXX XX15 586X 4327#  
PEPSICO INC  
PEPSICO INC & AFFILIATES  
ATTN: TAX DEPT 3N LAUREN CARTER  
700 ANDERSON HILL RD  
PURCHASE NY 10577-1401

July 30, 2019



**Letter ID:** CNXXXX15586X4327

**Taxpayer ID:** 13-1584302

**Audit ID:** A1907677184

**Reporting period:** December 2014

**Total Deficiency:** \$7,112,181.94

**Balance due:** \$7,112,181.94

## **Bankruptcy Information**

If you are currently under the protection of the Federal Bankruptcy Court, contact us and provide the bankruptcy case number and the bankruptcy court. The bankruptcy automatic stay does not change the fact you are required to file tax returns. For those under the bankruptcy protection, this notice is not an attempt to collect tax debt. Illinois law requires issuance of this notice to advise you of an amount due or a missing return that must be filed.

## **Taxpayer Bill of Rights**

- You have the right to call the Department of Revenue for help in resolving tax problems.
- You have the right to privacy and confidentiality under most tax laws.
- You have the right to respond, within specified time periods, to Department notices by asking questions, paying the amount due, or providing proof to refute the Department's findings.
- You have the right to appeal Department decisions, in many instances, within specified time periods, by asking for Department review, by filing a petition with the Illinois Independent Tax Tribunal, or by filing a complaint in circuit court.
- If you have overpaid your taxes, you have the right, within specified time periods, to file for a credit (or, in some cases, a refund) of that overpayment.

The full text of the Taxpayers' Bill of Rights is contained in the Illinois Compiled Statutes, 20 ILCS 2520/1 et seq.

# Statement

Date: July 30, 2019  
Name: PEPSICO INC  
Taxpayer ID: 13-1584302  
Letter ID: CNXXXX15586X4327

The attached EDA-27, Explanation of Adjustments, details your audit adjustments.

## Computation of deficiency

Reporting period: 31-Dec-2014

|  |                     |
|--|---------------------|
| Income or loss                               |                     |
| Federal taxable income                       | \$1,814,880,278.00  |
| Net operating loss deduction                 | \$0.00              |
| Income tax and replacement tax deduction     | \$17,258,365.00     |
| Illinois bonus depreciation addition         | \$404,303,179.00    |
| Related party expenses additions             | \$176,700,114.00    |
| Distributive share of additions              | \$8,280,864.00      |
| Other additions                              | \$0.00              |
| Base income or loss                          |                     |
| Foreign dividends subtraction                | \$97,597,971.00     |
| Illinois bonus depreciation subtraction      | \$278,414,062.00    |
| Related party expenses subtraction           | \$136,631,972.00    |
| Distributive share of subtractions           | \$5,971,637.00      |
| Other subtractions                           | \$455,076.00        |
| Total subtractions                           | \$519,070,718.00    |
| Base income or net loss                      | \$1,902,352,082.00  |
| Income allocable to Illinois                 |                     |
| Non-business income or loss                  | \$0.00              |
| Non-unitary partnership bus. income or loss  | \$27,711,672.00     |
| Business income or loss                      | \$1,874,640,410.00  |
| Apportionment formula                        |                     |
| Total sales everywhere                       | \$40,897,153,693.00 |
| Total Illinois sales                         | \$1,473,186,053.00  |
| Apportionment factor                         | 0.036021            |
| Business income/loss apportionable to IL     | \$67,526,422.00     |
| Nonbusiness income/loss allocable to IL      | \$0.00              |
| Non-unitary part. business income app. to IL | -\$155,309.00       |
| Base income or net loss allocable to IL      | \$67,371,113.00     |
| Net income                                   |                     |
| Base income or net loss                      | \$67,371,113.00     |
| IL net loss deduction (NLD)                  | \$0.00              |
| Net income                                   | \$67,371,113.00     |
| Net replacement tax                          |                     |
| Replacement tax                              | \$1,684,278.00      |
| Recapture of investment credits              | \$0.00              |
| Replacement tax before credits               | \$1,684,278.00      |

# Statement

Date: July 30, 2019  
Name: PEPSICO INC  
Taxpayer ID: 13-1584302  
Letter ID: CNXXXX15586X4327

## Computation of deficiency

Reporting period: 31-Dec-2014

|  |                  |
|--|------------------|
| Net replacement tax                        | \$1,684,278.00   |
| Net income tax                             |                  |
| Income tax                                 | \$4,715,978.00   |
| Recapture of investment credits            | \$0.00           |
| Income tax before credits                  | \$4,715,978.00   |
| Income tax investment credits              | \$1,238,151.00   |
| Net income tax                             | \$3,477,827.00   |
| Refund or balance due                      |                  |
| Net replacement tax                        | \$1,684,278.00   |
| Net income tax                             | \$3,477,827.00   |
| Medical Cannabis Act Surcharge             | \$0.00           |
| Total net income and replacement tax due   | \$5,162,105.00   |
| Total tax deficiency                       | \$5,162,105.00   |
| UPIA-5 late-payment penalty (Audit)        | \$1,032,421.00   |
| Plus interest on tax through July 30, 2019 | \$917,655.94     |
| Total deficiency                           | * \$7,112,181.94 |

If you intend to pay under protest, you must pay this total deficiency amount.

## Computation of balance due

Reporting period: 31-Dec-2014

|             |                  |
|-------------|------------------|
| Balance due | * \$7,112,181.94 |
|-------------|------------------|



# Explanation of Audit Adjustments

## Income Tax



#BWNKMGV  
#CNXX X122 899X 2888#  
PEPSICO INC  
PEPSICO INC & AFFILIATES  
ATTN: TAX DEPT 3N LAUREN CARTER  
700 ANDERSON HILL RD  
PURCHASE NY 10577-1401

July 30, 2019



Letter ID: CNXXX122899X2888

Taxpayer ID: 13-1584302

Account ID: 11653-34528

Audit ID: A1907677184

Reporting period: December 2014

### Explanation of adjustments for tax period ending 12/31/2014

### Return Impact

### Tax impact

|   |                     |                 |
|---|---------------------|-----------------|
| We included additional members in your unitary group.<br>[35 ILCS 5/1501(a)(27)] See attached list of the members of your unitary business group.   |                     |                 |
| We adjusted your addition modifications to include Illinois Income Tax, Illinois Replacement Tax, or both to the extent deducted in the computation of federal taxable income.<br>[35 ILCS 5/203(b)(2)(B), (c)(2)(C), (d)(2)(B)]  | \$7,952,520.00      | \$26,630.00     |
| We adjusted your addition modifications to reflect the correct addback of the federal bonus depreciation, or the correct reversal of the Illinois depreciation for bonus depreciation assets in the last year you are allowed a federal depreciation deduction, as required to be shown on the Form IL-4562.<br>[35 ILCS 5/203(b)(2)(E-10), (b)(2)(E-11), (c)(2)(G-10), (c)(2)(G-11), (d)(2)(D-5), (d)(2)(D-6)] | \$355,761,538.00    | \$1,191,300.00  |
| We adjusted your subtraction modifications to reflect the correct amount of Illinois depreciation related to bonus depreciation, assets, and the reversal of the bonus depreciation addback for an asset in the last year you are allowed a federal depreciation deduction for that asset, as required to be shown on Form IL-4562.<br>[35 ILCS 5/203(b)(2)(T), (c)(2)(R), (d)(2)(O)]                           | \$223,210,220.00    | -\$747,440.00   |
| We adjusted your subtraction modifications to reflect the correct amount as allowed by Illinois law.<br>[35 ILCS 5/203(h)]  | -\$3,295,926.00     | \$10,982.00     |
| We re-characterized as business income the royalty income you received from copyrights and patents that originated or were acquired for use in the regular course of your trade or business operations.<br>[86 IL Adm. Code 100.3010(c)(6)]   | -\$815,054,364.00   | \$2,729,285.00  |
| We adjusted your sales factor by eliminating sales between members of your unitary business group, which must be eliminated.<br>[86 IL Adm. Code 100.5270(b)(1)]  | -\$5,492,939,058.00 | \$898,033.00    |
| We adjusted your enterprise zone investment credit by eliminating property that was not used in an Illinois enterprise zone.<br>[35 ILCS 5/201(f)]  | \$1,238,151.00      | -\$1,238,151.00 |

Interest on tax and penalty, if applicable, has been computed as allowed by Illinois law. [35 ILCS 735/3-2]

We are imposing a penalty because you did not pay the amount required to be shown due on your return by the due date for payment. Once an audit has been initiated, the late payment penalty is assessed at 15 percent of the late payment. Failure to pay the amount due or invoke protest rights within 30 days from the "Date of Issuance" on the auditor's report issued with the EDA-143-I-APT, Notice of Audit Results, has resulted in this penalty increasing to 20 percent. [35 ILCS 735/3-3(b-20)(2)]

# Unitary Member List

Date: July 30, 2019  
Letter ID: CNXXX122899X2888  
Name: PEPSICO INC  
Taxpayer ID: 13-1584302  
Account ID: 11653-34528  
Audit ID: A1907677184  
Reporting period: December 2014  
Tax period ending: 12/31/2014

| <u>Name</u>                    | <u>FEIN</u> | <u>Status</u> |
|--------------------------------|-------------|---------------|
| PEPSICO INC                    | 13-1584302  |               |
| FRITO LAY INC                  | 27-0659583  |               |
| FRITO-LAY DIP COMPANY          | 26-1307326  |               |
| FRITO-LAY SALES INC            | 26-1737959  |               |
| HOMEFINDING COMPANY OF TEXAS   | 75-2349914  |               |
| PLAYCO INC                     | 41-1889094  |               |
| Cocina Autentica Inc           | 45-4680314  |               |
| SMARTFOODS INC                 | 51-0353727  |               |
| Stacy's Pita Chip Company Inc  | 04-3341440  |               |
| RARE FARE FOODS INC (fka Sun F | 71-0996120  |               |
| IZZE Beverage Co               | 04-3606693  |               |
| PEPSI-COLA ADVERTISING AND MAR | 45-0484104  |               |
| PEPSICO SALES INC (fka PEPSI-C | 37-1460334  |               |
| PEPSI-COLA MANAGEMENT AND ADMI | 45-0484115  |               |
| PEPSI-COLA SALES AND DISTRIBUT | 45-0484109  |               |
| PEPSI-COLA TECHNICAL OPERATION | 45-0484112  |               |
| PCNA MANUFACTURING INC         | 26-1673915  |               |
| PEPSI LOGISTICS COMPANY INC    | 03-0613202  |               |
| SOUTH BEACH BEVERAGE COMPANY I | 13-4147785  |               |
| BEVERAGES FOODS & SERVICE INDU | 13-2617323  |               |
| PEPSI-COLA MEDITERRANEAN LTD   | 13-3497316  |               |
| PEPSI-COLA INT-L LTD USA       | 88-0189137  |               |
| PEPSICO OVERSEAS CORP          | 13-2555049  |               |
| SEVEN-UP ASIA INC              | 43-1056990  |               |
| PEPSICO WORLD TRADING COMPANY  | 11-2110857  |               |
| BEAMAN BOTTLING COMPANY        | 13-3998535  |               |
| DAVLYN REALTY CORPORATION      | 13-6167311  |               |



# Unitary Member List

Date: July 30, 2019  
Letter ID: CNXXX122899X2888  
Name: PEPSICO INC  
Taxpayer ID: 13-1584302  
Account ID: 11653-34528  
Audit ID: A1907677184  
Reporting period: December 2014  
Tax period ending: 12/31/2014

| <u>Name</u>                    | <u>FEIN</u> | <u>Status</u> |
|--------------------------------|-------------|---------------|
| HILLBROOK INC                  | 03-0340924  |               |
| PepsiCo Global Real Estate Com | 27-1826629  |               |
| PEPSI-COLA METROPOLITAN BOTTLI | 13-1584303  |               |
| NCJV INC                       | 20-0579846  |               |
| NEW CENTURY BEVERAGES COMPANY  | 94-0712410  |               |
| PEPSI-COLA BOTTLING COMPANY OF | 43-1058415  |               |
| PEPSI-COLA OPERATING CHESAPEAK | 52-1560484  |               |
| PEPSI BOTTLING HOLDINGS INC    | 13-4042403  |               |
| PEPSICO CAPTIVE HOLDINGS INC   | 13-3746299  |               |
| PEPSICO FINANCE (ANTILLES A) N | 13-4049040  |               |
| PEPSI-COLA COMPANY             | 13-2555077  |               |
| PEPSI PROMOTIONS INC           | 13-3879459  |               |
| PRS Inc                        | 13-3327929  |               |
| International Bottlers Managem | 13-3887968  |               |
| Whitman Corporation            | 36-3598339  |               |
| Pepsi Bottling Group Global Fi | 87-0808071  |               |
| GB International Inc           | 36-3935070  |               |
| DUO JUICE COMPANY              | 65-0579816  |               |
| TROPICANA MANUFACTURING COMPAN | 65-1061012  |               |
| TROPICANA SERVICES INC (fka Tr | 65-0528157  |               |
| TROPICANA PRODUCTS INC         | 13-3346705  |               |
| TROPICANA PRODUCTS SALES INC   | 59-0935073  |               |
| NAKED JUICE COMPANY            | 23-1694834  |               |
| NAKED JUICE OF GLENDORA INC    | 95-3043683  |               |
| ONE WORLD INVESTORS INC        | 27-0650281  |               |
| QUAKER OATS CAPITAL CORPORATIO | 36-3592607  |               |
| THE QUAKER OATS COMPANY        | 36-1655315  |               |
| QUAKER MANUFACTURING LLC       | 36-4316906  |               |

# Unitary Member List

Date: July 30, 2019  
Letter ID: CNXXX122899X2888  
Name: PEPSICO INC  
Taxpayer ID: 13-1584302  
Account ID: 11653-34528  
Audit ID: A1907677184  
Reporting period: December 2014  
Tax period ending: 12/31/2014

| <u>Name</u>                    | <u>FEIN</u> | <u>Status</u> |
|--------------------------------|-------------|---------------|
| QUAKER SALES & DISTRIBUTION IN | 36-4308689  |               |
| STOKELY-VAN CAMP INC           | 35-0690290  |               |
| SVC MANUFACTURING INC          | 36-4286604  |               |
| QTG SERVICES INC (f-k-a SVC EQ | 36-4269344  |               |
| THE GATORADE COMPANY           | 36-3719867  |               |
| QTG Development                | 74-3064293  |               |
| SVC Logistics                  | 01-0798715  |               |
| Golden Grain Company           | 94-0517860  |               |
| Mid America Improvement Corpor | 36-2968510  |               |
| South Properties Inc           | 36-2255947  |               |
| Environ of Inverrary Inc       | 36-2873872  |               |
| IC Equities Inc                | 36-2710252  |               |
| S&T of Mississippi Inc         | 36-2728168  |               |
| PBG Canada Holdings Inc        | 22-3712940  |               |
| PBG Canada Holdings II Inc     | 75-3098595  |               |
| Bottling Group Holdings Inc    | 13-4042405  |               |
| C&I Leasing Inc                | 13-3505003  |               |
| Central K Inc                  | 06-1655285  |               |
| Sharepower Inc                 | 36-4340284  |               |
| Caribbean Flavors Inc          | 41-1955878  |               |
| Pepsi Cola of Corvallis Inc    | 93-0499857  |               |
| FLNA                           | 75-2045763  |               |

# EXHIBIT C

# Notice of Deficiency

for Form IL-1120, Corporation Income and Replacement Tax Return



#BWNKMGV  
#CNXX XXX3 1437 1685#  
PEPSICO INC  
PEPSICO INC & AFFILIATES  
ATTN: TAX DEPT 3N LAUREN CARTER  
700 ANDERSON HILL RD  
PURCHASE NY 10577-1401

July 30, 2019



Letter ID: CNXXXXX314371685

Taxpayer ID: 13-1584302  
Audit ID: A1907677184  
Reporting period: December 2015  
Total Deficiency: \$7,214,776.47  
Balance due: \$6,234,951.47

We have audited your account for the reporting period listed above. The members of the combined group are jointly and severally liable for the total balance due. The attached statement explains the computation of your deficiency and the balance due. **Illinois law requires that we notify you of this deficiency and your rights.**

**If you agree to this deficiency**, pay the total balance due as soon as possible to minimize penalty and interest assessed. Make your check payable to the "Illinois Department of Revenue", write your taxpayer ID on your check, and mail a copy of this notice along with your payment.

**If you do not agree, you may contest this notice by following the instructions listed below.**

- **If the amount of this tax deficiency, exclusive of penalty and interest is more than \$15,000, or if no tax deficiency is assessed, but the total penalties and interest is more than \$15,000**, file a petition with the Illinois Independent Tax Tribunal within **60 days** of this notice. Your petition must be in accordance with the rules of practice and procedure provided by the Tribunal (35 ILCS 1010/1-1, *et seq.*).
- **In all other cases**, file a protest with us, the Illinois Department of Revenue, within **60 days** of the date of this notice. If you file a protest on time, we must reconsider the proposed deficiency, and if requested, grant you or your authorized representative and administrative hearing. An administrative hearing is a formal legal proceeding conducted pursuant to the rules adopted by the Department and is presided over by an administrative law judge. Submit your protest on Form EAR-14, Format for Filing a Protest for Income Tax, (available on our website at [tax.illinois.gov](http://tax.illinois.gov)). If we do not receive your protest within **60 days**, this deficiency will become final. A protest of this notice does not preserve your rights under any other notice.
- **In any case**, you may instead, under Sections 2a and 2a.1 of the State Officers and Employees Money Disposition Act (30 ILCS 230/2a, 230/2a.1), pay the total liability under protest using Form RR-374, Notice of Payment Under Protest (available on our website at [tax.illinois.gov](http://tax.illinois.gov)), and file a complaint with the circuit court for a review of our determination.

If you do not protest this notice or pay the assessment total in full, we may take collection action against you for the balance due which, may include levy of your wages and bank accounts, filing of a tax lien, or other action.

**Note:** If you are under bankruptcy protection, see the "Bankruptcy Information" section on the following page of this notice for additional information and instructions. If you have questions, call us at the telephone number shown below.

Sincerely,

David Harris  
Director

ILLINOIS DEPARTMENT OF REVENUE  
AUDIT BUREAU  
PO BOX 19012  
SPRINGFIELD IL 62794-9012  
217 524-2230

# Notice of Deficiency

for Form IL-1120, Corporation Income and Replacement Tax Return



#BWNKMGV  
#CNXX XXX3 1437 1685#  
PEPSICO INC  
PEPSICO INC & AFFILIATES  
ATTN: TAX DEPT 3N LAUREN CARTER  
700 ANDERSON HILL RD  
PURCHASE NY 10577-1401

July 30, 2019



Letter ID: CNXXXXX314371685

Taxpayer ID: 13-1584302  
Audit ID: A1907677184  
Reporting period: December 2015  
Total Deficiency: \$7,214,776.47  
Balance due: \$6,234,951.47

## **Bankruptcy Information**

If you are currently under the protection of the Federal Bankruptcy Court, contact us and provide the bankruptcy case number and the bankruptcy court. The bankruptcy automatic stay does not change the fact you are required to file tax returns. For those under the bankruptcy protection, this notice is not an attempt to collect tax debt. Illinois law requires issuance of this notice to advise you of an amount due or a missing return that must be filed.

## **Taxpayer Bill of Rights**

- You have the right to call the Department of Revenue for help in resolving tax problems.
- You have the right to privacy and confidentiality under most tax laws.
- You have the right to respond, within specified time periods, to Department notices by asking questions, paying the amount due, or providing proof to refute the Department's findings.
- You have the right to appeal Department decisions, in many instances, within specified time periods, by asking for Department review, by filing a petition with the Illinois Independent Tax Tribunal, or by filing a complaint in circuit court.
- If you have overpaid your taxes, you have the right, within specified time periods, to file for a credit (or, in some cases, a refund) of that overpayment.

The full text of the Taxpayers' Bill of Rights is contained in the Illinois Compiled Statutes, 20 ILCS 2520/1 et seq.

# Statement

Date: July 30, 2019  
Name: PEPSICO INC  
Taxpayer ID: 13-1584302  
Letter ID: CNXXXXX314371685

The attached EDA-27, Explanation of Adjustments, details your audit adjustments.

## Computation of deficiency

Reporting period: 31-Dec-2015

### Income or loss

|  |                    |
|--|--------------------|
| Federal taxable income                   | \$2,149,525,261.00 |
| Net operating loss deduction             | \$0.00             |
| Income tax and replacement tax deduction | \$8,307,784.00     |
| Illinois bonus depreciation addition     | \$319,517,981.00   |
| Related party expenses additions         | \$179,810,828.00   |
| Distributive share of additions          | \$10,133,326.00    |
| Other additions                          | \$0.00             |

### Base income or loss

|   |                    |
|---|--------------------|
| Foreign dividends subtraction           | \$45,249,890.00    |
| Illinois bonus depreciation subtraction | \$325,400,953.00   |
| Related party expenses subtraction      | \$151,686,356.00   |
| Distributive share of subtractions      | \$18,839,461.00    |
| Other subtractions                      | \$915,991.00       |
| Total subtractions                      | \$542,092,651.00   |
| Base income or net loss                 | \$2,125,202,529.00 |

### Income allocable to Illinois

|  |                     |
|--|---------------------|
| Non-business income or loss                  | \$0.00              |
| Non-unitary partnership bus. income or loss  | \$29,396,491.00     |
| Business income or loss                      | \$2,095,806,038.00  |
| Apportionment formula                        |                     |
| Total sales everywhere                       | \$42,020,453,554.00 |
| Total Illinois sales                         | \$1,449,846,911.00  |
| Apportionment factor                         | 0.034504            |
| Business income/loss apportionable to IL     | \$72,313,692.00     |
| Nonbusiness income/loss allocable to IL      | \$0.00              |
| Non-unitary part. business income app. to IL | \$20,479.00         |
| Base income or net loss allocable to IL      | \$72,334,171.00     |

### Net income

|                             |                 |
|-----------------------------|-----------------|
| Base income or net loss     | \$72,334,171.00 |
| IL net loss deduction (NLD) | \$0.00          |
| Net income                  | \$72,334,171.00 |

### Net replacement tax

|                                 |                |
|---------------------------------|----------------|
| Replacement tax                 | \$1,808,354.00 |
| Recapture of investment credits | \$0.00         |
| Replacement tax before credits  | \$1,808,354.00 |

# Statement

Date: July 30, 2019  
Name: PEPSICO INC  
Taxpayer ID: 13-1584302  
Letter ID: CNXXXXX314371685

| <b>Computation of deficiency</b>   |  | <b>Reporting period: 31-Dec-2015</b> |
|--|--|--------------------------------------|
| Replacement tax investment credits   |  | \$0.00                               |
| Net replacement tax  |  | \$1,808,354.00                       |
| Net income tax   |  |                                      |
| Income tax   |  | \$3,797,544.00                       |
| Recapture of investment credits  |  | \$0.00                               |
| Income tax before credits  |  | \$3,797,544.00                       |
| Income tax investment credits  |  | \$0.00                               |
| Net income tax   |  | \$3,797,544.00                       |
| Refund or balance due  |  |                                      |
| Net replacement tax  |  | \$1,808,354.00                       |
| Net income tax   |  | \$3,797,544.00                       |
| Medical Cannabis Act Surcharge   |  | \$0.00                               |
| <br>   |  |                                      |
| Total net income and replacement tax due                                       |  | \$5,605,898.00                       |
| <br>   |  |                                      |
| Total tax deficiency   |  | \$5,605,898.00                       |
| UPIA-5 late-payment penalty (Audit)  |  | \$925,214.60                         |
| Plus interest on tax through July 30, 2019                                     |  | \$683,663.87                         |
| <br>   |  |                                      |
| Total deficiency   |  | * \$7,214,776.47                     |
| If you intend to pay under protest, you must pay this total deficiency amount. |  |                                      |

| <b>Computation of balance due</b> |  | <b>Reporting period: 31-Dec-2015</b> |
|-----------------------------------|--|--------------------------------------|
| Minus pending refund              |  | -\$979,825.00                        |
| <br>                              |  |                                      |
| Balance due                       |  | * \$6,234,951.47                     |



# Explanation of Audit Adjustments

## Income Tax



#BWNKMGV  
#CNXX XXX5 6688 X8X1#  
PEPSICO INC  
PEPSICO INC & AFFILIATES  
ATTN: TAX DEPT 3N LAUREN CARTER  
700 ANDERSON HILL RD  
PURCHASE NY 10577-1401

July 30, 2019



Letter ID: CNXXXXX56688X8X1

Taxpayer ID: 13-1584302

Account ID: 11653-34528

Audit ID: A1907677184

Reporting period: December 2015

### Explanation of adjustments for tax period ending 12/31/2015

|   | <u>Return Impact</u> | <u>Tax impact</u> |
|---|----------------------|-------------------|
| We included additional members in your unitary group.<br>[35 ILCS 5/1501(a)(27)] See attached list of the members of your unitary business group.   |                      |                   |
| We adjusted your addition modifications to include Illinois Income Tax, Illinois Replacement Tax, or both to the extent deducted in the computation of federal taxable income.<br>[35 ILCS 5/203(b)(2)(B), (c)(2)(C), (d)(2)(B)]  | \$747,382.00         | \$1,999.00        |
| We adjusted your addition modifications to reflect the correct addback of the federal bonus depreciation, or the correct reversal of the Illinois depreciation for bonus depreciation assets in the last year you are allowed a federal depreciation deduction, as required to be shown on the Form IL-4562.<br>[35 ILCS 5/203(b)(2)(E-10), (b)(2)(E-11), (c)(2)(G-10), (c)(2)(G-11), (d)(2)(D-5), (d)(2)(D-6)] | -\$49,495,998.00     | -\$132,355.00     |
| We adjusted your subtraction modifications to reflect the correct amount of Illinois depreciation related to bonus depreciation, assets, and the reversal of the bonus depreciation addback for an asset in the last year you are allowed a federal depreciation deduction for that asset, as required to be shown on Form IL-4562.<br>[35 ILCS 5/203(b)(2)(T), (c)(2)(R), (d)(2)(O)]                           | \$149,133,002.00     | -\$398,791.00     |
| We adjusted your subtraction modifications to reflect the correct deduction of the interest received from an 80/20 company or a non-combination company for which an addition modification was made under 35 ILCS 5/203(b)(2)(E-12).<br>[Ref: 35 ILCS 5/203(b)(2)(W)]   | -\$350,043,317.00    | \$936,037.00      |
| We adjusted your subtraction modifications to reflect the correct amount as allowed by Illinois law.<br>[35 ILCS 5/203(h)]  | -\$5,434,581.00      | \$14,532.00       |
| We re-characterized as business income the royalty income you received from copyrights and patents that originated or were acquired for use in the regular course of your trade or business operations.<br>[86 IL Adm. Code 100.3010(c)(6)]   | -\$882,551,864.00    | \$2,359,997.00    |
| We adjusted your sales factor by eliminating sales between members of your unitary business group, which must be eliminated.<br>[86 IL Adm. Code 100.5270(b)(1)]  | -\$5,586,942,527.00  | \$657,539.00      |
| Interest on tax and penalty, if applicable, has been computed as allowed by Illinois law. [35 ILCS 735/3-2]   |                      |                   |

Date: July 30, 2019

Letter ID: CNXXXXX56688X8X1  
Name: PEPSICO INC  
Taxpayer ID: 13-1584302  
Account ID: 11653-34528  
Audit ID: A1907677184  
Reporting period: December 2015

Explanation of adjustments for tax period ending 12/31/2015

Income change

Tax impact

We are imposing a penalty because you did not pay the amount required to be shown due on your return by the due date for payment. Once an audit has been initiated, the late payment penalty is assessed at 15 percent of the late payment. Failure to pay the amount due or invoke protest rights within 30 days from the "Date of Issuance" on the auditor's report issued with the EDA-143-I-APT, Notice of Audit Results, has resulted in this penalty increasing to 20 percent. [35 ILCS 735/3-3(b-20)(2)]



# Unitary Member List

Date: July 30, 2019  
Letter ID: CNXXXXX56688X8X1  
Name: PEPSICO INC  
Taxpayer ID: 13-1584302  
Account ID: 11653-34528  
Audit ID: A1907677184  
Reporting period: December 2015  
Tax period ending: 12/31/2015

| <u>Name</u>                    | <u>FEIN</u> | <u>Status</u> |
|--------------------------------|-------------|---------------|
| PEPSICO INC                    | 13-1584302  |               |
| FRITO LAY INC                  | 27-0659583  |               |
| FRITO-LAY DIP COMPANY          | 26-1307326  |               |
| FRITO-LAY SALES INC            | 26-1737959  |               |
| HOMEFINDING COMPANY OF TEXAS   | 75-2349914  |               |
| PLAYCO INC                     | 41-1889094  |               |
| Cocina Autentica Inc           | 45-4680314  |               |
| SMARTFOODS INC                 | 51-0353727  |               |
| Stacy's Pita Chip Company Inc  | 04-3341440  |               |
| RARE FARE FOODS INC (fka Sun F | 71-0996120  |               |
| IZZE Beverage Co               | 04-3606693  |               |
| PCNA MANUFACTURING INC         | 26-1673915  |               |
| PEPSI LOGISTICS COMPANY INC    | 03-0613202  |               |
| BEVERAGES FOODS & SERVICE INDU | 13-2617323  |               |
| PEPSI-COLA MEDITERRANEAN LTD   | 13-3497316  |               |
| PEPSI-COLA INT-L LTD USA       | 88-0189137  |               |
| PEPSICO OVERSEAS CORP          | 13-2555049  |               |
| SEVEN-UP ASIA INC              | 43-1056990  |               |
| PEPSICO WORLD TRADING COMPANY  | 11-2110857  |               |
| BEAMAN BOTTLING COMPANY        | 13-3998535  |               |
| DAVLYN REALTY CORPORATION      | 13-6167311  |               |
| HILLBROOK INC                  | 03-0340924  |               |
| PepsiCo Global Real Estate Com | 27-1826629  |               |
| PEPSI-COLA METROPOLITAN BOTTLI | 13-1584303  |               |
| NEW CENTURY BEVERAGES COMPANY  | 94-0712410  |               |
| PEPSI-COLA BOTTLING COMPANY OF | 43-1058415  |               |
| PEPSI-COLA OPERATING CHESAPEAK | 52-1560484  |               |

# Unitary Member List

Date: July 30, 2019  
Letter ID: CNXXXXX56688X8X1  
Name: PEPSICO INC  
Taxpayer ID: 13-1584302  
Account ID: 11653-34528  
Audit ID: A1907677184  
Reporting period: December 2015  
Tax period ending: 12/31/2015

| <u>Name</u>                    | <u>FEIN</u> | <u>Status</u> |
|--------------------------------|-------------|---------------|
| PEPSI BOTTLING HOLDINGS INC    | 13-4042403  |               |
| PEPSICO CAPTIVE HOLDINGS INC   | 13-3746299  |               |
| PEPSI-COLA COMPANY             | 13-2555077  |               |
| PEPSI PROMOTIONS INC           | 13-3879459  |               |
| PRS Inc                        | 13-3327929  |               |
| International Bottlers Managem | 13-3887968  |               |
| Whitman Corporation            | 36-3598339  |               |
| Pepsi Bottling Group Global Fi | 87-0808071  |               |
| GB International Inc           | 36-3935070  |               |
| DUO JUICE COMPANY              | 65-0579816  |               |
| TROPICANA MANUFACTURING COMPAN | 65-1061012  |               |
| TROPICANA SERVICES INC (fka Tr | 65-0528157  |               |
| TROPICANA PRODUCTS INC         | 13-3346705  |               |
| TROPICANA PRODUCTS SALES INC   | 59-0935073  |               |
| NAKED JUICE COMPANY            | 23-1694834  |               |
| NAKED JUICE OF GLENDORA INC    | 95-3043683  |               |
| ONE WORLD INVESTORS INC        | 27-0650281  |               |
| QUAKER OATS CAPITAL CORPORATIO | 36-3592607  |               |
| QUAKER MANUFACTURING LLC       | 36-4316906  |               |
| STOKELY-VAN CAMP INC           | 35-0690290  |               |
| SVC MANUFACTURING INC          | 36-4286604  |               |
| QTG SERVICES INC (f-k-a SVC EQ | 36-4269344  |               |
| THE GATORADE COMPANY           | 36-3719867  |               |
| QTG Development Inc            | 74-3064293  |               |
| SVC Logistics Inc              | 01-0798715  |               |
| Golden Grain Company           | 94-0517860  |               |
| Mid America Improvement Corpor | 36-2968510  |               |
| South Properties Inc           | 36-2255947  |               |

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| <u>Name</u>                 | <u>FEIN</u> | <u>Status</u> |
|-----------------------------|-------------|---------------|
| Environ of Inverrary Inc    | 36-2873872  |               |
| IC Equities Inc             | 36-2710252  |               |
| S&T of Mississippi Inc      | 36-2728168  |               |
| PBG Canada Holdings Inc     | 22-3712940  |               |
| PBG Canada Holdings II Inc  | 75-3098595  |               |
| Bottling Group Holdings Inc | 13-4042405  |               |
| C&I Leasing Inc             | 13-3505003  |               |
| Central K Inc               | 06-1655285  |               |
| Sharepower Inc              | 36-4340284  |               |
| Caribbean Flavors Inc       | 41-1955878  |               |
| Pepsi Cola of Corvallis Inc | 93-0499857  |               |
| FLNA                        | 75-2045763  |               |



**CERTIFICATE OF SERVICE**

I, the undersigned counsel, certify a copy of the foregoing **PETITION** has been served upon the below-named party by hand delivery on this 24th day of September, 2019 before 5:00 p.m.

**Illinois Department of Revenue**

Office of Legal Services

100 W. Randolph Street, Level 7-900 (7th Floor of the Thompson Center)

Chicago, Illinois 60601



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David Andrew Hemmings

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