Shareholder's Instructions for 2016 Schedule 5K-1

General Instructions

Schedule 5K-1 shows each shareholder's share of the corporation's income, deductions, credits, etc., which have been summarized on Schedule 5K. Like Schedule 5K, Schedule 5K-1 requires an entry for the federal amount, adjustment, and amount determined under Wisconsin law of each applicable share item. In addition, Schedule 5K-1 for a nonresident or part-year resident shareholder requires a separate entry for the amount of each share item attributable to Wisconsin.

File each shareholder's Schedule 5K-1 along with the Form 5S you file with the Department. Keep a copy as a part of the corporation's records, and give each shareholder his or her own separate copy. Schedule 5K-1 must be prepared and given to each shareholder on or before the day on which Form 5S is filed. In addition, give each shareholder a copy of the "Shareholder's Instructions for 2016 Schedule 5K-1."

Similar to federal Schedule K-1, the tax-option (S) corporation uses Schedule 5K-1 to report your pro rata share of the corporation's income, deductions, credits, etc., for Wisconsin purposes. Please keep it for your records. You must also file a copy of Schedule 5K-1 with your tax return if:

- You are claiming a tax credit passed through from the tax-option (S) corporation,
- You are filing an amended return based on an amended Schedule 5K-1, or
- The tax-option (S) corporation withheld tax on your share of the corporation's distributable income (applicable if you are not a Wisconsin resident).

Although the tax-option (S) corporation may have to pay a built-in gains tax, a franchise tax measured by certain federal, state, and municipal government interest income, and an economic development surcharge, you are liable for Wisconsin income tax on your share of the tax-option (S) corporation income, whether or not distributed, and you must include your share on your Wisconsin income tax return if a return is required.

Schedule 5K-1 shows each shareholder's share of the corporation's income, deductions, credits, etc., which have been summarized on Schedule 5K. Like Schedule 5K, Schedule 5K-1 requires an entry for the federal amount, adjustment, and amount determined under Wisconsin law of each applicable share item. In addition, Schedule 5K-1 for a nonresident or part-year resident shareholder requires a separate entry for the amount of each share item attributable to Wisconsin.

Federal Schedules K-1

Since the Wisconsin Schedule 5K-1 replaces the federal Schedule K-1, a tax-option (S) corporation doesn't have to also file a federal Schedule K-1 for each shareholder with Form 5S. However, you may submit copies of the federal Schedules K-1 instead of preparing Schedules 5K-1 in the following situations:

- If the tax-option (S) corporation operates only in Wisconsin and, on Schedule 5K, reports no adjustments in column c or credits in column d, you may use the federal Schedules K-1 to report the Wisconsin tax-option (S) corporation items for all shareholders.
- If the tax-option (S) corporation operates in and outside Wisconsin and, on Schedule 5K, reports no adjustments in column c or credits in column d, you may use the federal Schedules K-1 for **full-year Wisconsin resident** shareholders.

If you file federal Schedules K-1 instead of Wisconsin Schedules 5K-1, *you must state on the shareholder's federal Schedule K-1 that there aren't any Wisconsin adjustments or credits*.

Inconsistent Treatment of Items – Generally, you must report tax-option (S) corporation items shown on your Schedule 5K-1 and any accompanying schedules the same way that the tax-option (S) corporation treated the items on its return. If your treatment is (or may be) inconsistent with the tax-option (S) corporation's treatment, you must include a statement with your return to identify and explain any inconsistency.

Errors – If you believe the tax-option (S) corporation has made an error on your Schedule 5K-1, notify the corporation and ask for a corrected Schedule 5K-1. Don't change any items on your copy. Be sure that the corporation sends a copy of the corrected Schedule 5K-1 to the Wisconsin Department of Revenue.

Elections – Generally, the tax-option (S) corporation decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use. However, certain elections are made by you separately on your tax return and not by the corporation. These include elections under Internal Revenue Code section 59(e)(2), relating to the deduction of certain qualified expenditures ratably over the period of time specified in that section.

Limitations on Losses, Deductions and Credits

CAUTION: The amount of loss and deduction that you may claim on your Wisconsin return may be less than the amount reported on Schedule 5K-1. It is the shareholder's responsibility to consider and apply any applicable limitations.

There are three separate potential limitations on the amount of tax-option (S) corporation losses that you may deduct on your return. These limitations are as follows:

1. The basis of your stock,
2. The at-risk limitations, and
3. The passive activity limitations.

1. Basis of Your Stock – You are responsible for maintaining records to show the computation of the basis of your stock in the corporation for Wisconsin income tax purposes. Schedule 5K-1 provides information to help you make the computation at the end of each corporate taxable year. The Wisconsin basis of your stock (generally, its cost) is adjusted as follows (this list is not all-inclusive):

Basis is first ***increased*** by:

- All income, including tax-exempt income, as computed under Wisconsin law, reported on Schedule 5K-1, column d. **Exception:** Basis is not increased by the corporations excluded discharge of indebtedness income, generally applicable for discharges of indebtedness after October 11, 2001.

NOTE: You must report the taxable income on your Wisconsin income tax return (if you are required to file a return) for it to increase your basis.

Basis is then ***decreased,*** but not below zero, by:

- Property distributions, including cash, made by the corporation, reported on Schedule 5K-1, line 16d, that are not includable in income. (Distributions in excess of Wisconsin basis reported on Schedule 5K-1, line 16d, and dividend distributions reported on Schedule 5K-1, line 17c, don't decrease basis.)
- Nondeductible expenditures not due to timing differences, as computed under Wisconsin law from Schedule 5K-1, column (d).
- All deductible losses and deductions, as computed under Wisconsin law, reported on Schedule 5K-1, column (d).
- Your share of the supplement to the federal historic rehabilitation tax credit or early stage seed investment credit computed.

When figuring the Wisconsin basis in stock of a multistate corporation, use your share of the total company amounts, as computed under Wisconsin law from Schedule 5K-1, column (d), rather than the income, losses, and deductions attributable to Wisconsin activities from Schedule 5K-1, column (e).

You may elect to decrease your basis by deductible losses and deductions prior to decreasing your basis by nondeductible expenses. If you make this election, any nondeductible expenses that exceed the basis of your stock and debt owed to you by the corporation are treated as nondeductible expenses for the following taxable year. To make the election, file a statement with your timely filed original or amended return, as provided in the federal regulations. Once made, the election applies to the year for which it is made and all future taxable years for that corporation, unless the Department agrees to revoke your election.

2. At-Risk Limitations – For federal purposes, if you have a loss or other deduction from any activity carried on as a trade or business or for the production of income by the tax-option (S) corporation, and you have amounts in the activity for which you aren't at risk, you generally will have to figure the allowable loss. The at-risk rules generally limit the amount of loss (including loss on disposition of assets) and other deductions (such as the section 179 expense deduction) that you can claim to the amount you could actually lose in the activity. The at-risk rules also apply for Wisconsin purposes.

3. Passive Activity Limitations – Internal Revenue Code section 469 limits the deduction of certain losses. The rules apply to shareholders who are individuals, estates, trusts, closely held corporations, or personal service corporations and have a passive activity loss for the taxable year. Passive activities include trade or business activities in which you didn't materially participate and rental activities, as defined in the federal regulations. Rental real estate activities in which you materially participated are not passive activities if you meet certain eligibility requirements. The tax-option (S) corporation will identify separately each activity that may be passive to you. You must determine whether your losses are limited by the passive activity rules.

The passive activity loss limits also apply for Wisconsin purposes. However, if there are differences between your federal and Wisconsin income, you may have to recompute the amount of passive activity loss deductible for Wisconsin. There are three types of differences between federal and Wisconsin income:

a. Schedule I adjustments,
b. Differences resulting from making different elections for federal and Wisconsin purposes, and
c. Modifications to federal adjusted gross income prescribed in section 71.05(6) to (12), (19), and (20), Wisconsin Statutes.

A Schedule I adjustment may arise if a provision of the Internal Revenue Code doesn't apply for Wisconsin or if a federal law change becomes effective at a different time for Wisconsin than for federal purposes. Modifications to federal adjusted gross income include the addition of state and

local government bond interest income and the subtraction of the capital gain deduction.

For differences resulting from Schedule I adjustments or different elections, you must recompute the passive activity loss limits for Wisconsin. However, you may not recompute the loss limits for modifications. The tax-option (S) corporation should tell you the reason for any adjustment in column (c) so that you will know whether you must recompute the passive activity loss limits.

Specific Instructions

Information About the Tax-Option (S) Corporation and Shareholder

Enter the identifying number and name of the tax-option (S) corporation and the shareholder. If a QSST is a shareholder, enter the name and address of the QSST, not the name and address of its beneficiary. The QSST must file a Wisconsin Form 2 to report its share of the tax-option (S) corporation income. The beneficiary must file an individual income tax return to report his or her share of the QSST's income.

If the tax-option (S) corporation is aware that the shareholder is a disregarded entity (other than a QSST) or grantor trust, enter in Part II the name and identifying number of the member or grantor to whom the income on Schedule 5K-1 will be reported. If you enter this information, it is less likely that the Department will need to contact you or the shareholder to verify that the proper amount of income is reported.

■ **Item A.** Check the appropriate box to indicate what type of entity this shareholder is.

■ **Item B.** If the corporation ceased to exist, withdrew from Wisconsin, or terminated its tax-option (S) election or if the shareholder terminated his or her interest in the corporation during the taxable year, check the "Final 5K-1" box.

To correct an error on a Schedule 5K-1 already filed, file an amended Schedule 5K-1 and check the "Amended 5K-1" box.

■ **Item C.** Enter the shareholder's percentage of stock ownership for the taxable year. If there was a change in shareholders or in the relative interest in stock the shareholders owned during the taxable year, each shareholder's percentage of ownership is weighted for the number of days in the taxable year that stock was owned.

■ **Item D.** Enter the shareholder's state of residence (domicile). If the state of residence changed during the corporation's taxable year, indicate all states involved. If the shareholder moved into or out of Wisconsin during the corporation's taxable year, and the corporation does business in and outside Wisconsin, the shareholder's Wisconsin share of the tax-option items will be affected. See the instructions below for more information.

■ **Item E.** Check here only if the shareholder is a nonresident or part-year resident of Wisconsin during the corporation's taxable year and the corporation is a multistate corporation that would figure its income under the apportionment method if it were a regular (C) corporation. Enter the corporation's apportionment percentage from Form A-1 or Form A-2, as appropriate. Include Form A-1 or Form A-2 with the Form 5S filed with the Department.

■ **Item F.** Check here only if the shareholder is a nonresident or part-year resident of Wisconsin during the corporation's taxable year and the corporation is a multistate corporation that would figure its income under the separate accounting method if it were a regular (C) corporation. Include a schedule, similar to Form C, that shows the allocation of the amount under Wisconsin law in column d of each applicable share item on Schedule 5K to Wisconsin and outside Wisconsin. This schedule should also show the basis of such allocation.

■ **Item G.** Check this box if the shareholder is a nonresident who filed Form PW-2 or received a continuous exemption letter from the department to claim exemption from pass-through entity withholding Check this box only if Form PW-2, Part 2 indicates it was approved by the Department. You must keep a copy of the approved Form PW-2, Part 2 or continuous exemption letter on file to substantiate the withholding exemption. However, the tax-option (S) corporation generally must still report that shareholder on Form PW-1 to disclose that the withholding exemption was claimed. See the Form PW-1 instructions for further details.

Part III - Schedule 5K-1, Columns a Through e

Column a – Pro rata share items. These item descriptions are substantially identical to the item descriptions on federal Schedule K-1. However, on the lines for other income, other deductions, alternative minimum tax (AMT) items, nondeductible expenses, distributions, and other information, enter the actual description instead of the applicable code from the federal Schedule K-1.

Column b – Federal Amount. The federal amount is the shareholder's pro rata share of the amount from Wisconsin Schedule 5K, column b, and generally should agree with the amount for that item reported on the shareholder's federal Schedule K-1.

Column c – Adjustment. The adjustment is the shareholder's pro rata share of the amount from Wisconsin Schedule 5K, column c. You must complete Schedule 5K-1 – *Shareholder's Pro Rata Share of Additions and Subtractions* on page 4 of Schedule 5K-1 and for any adjustment in column c. If the difference arises because a federal law

change has not been adopted by Wisconsin, identify it as a "**Schedule I adjustment**." Individual shareholders must account for this difference on Wisconsin Schedule I.

Column d – Amount Under Wisconsin Law. The amount under Wisconsin law is the shareholder's pro rata share of the amount from Wisconsin Schedule 5K, column d. This is the amount used in computing Wisconsin income by a full-year resident of Wisconsin. Full-year Wisconsin resident shareholders, part-year resident shareholders, and nonresident shareholders also use the information from column d to calculate the Wisconsin basis in the corporation's stock.

Column e – Wisconsin Source Amount. Fill in this column only for a nonresident or part-year Wisconsin resident. The Wisconsin source amount is the portion of the shareholder's amount in column d that is attributable to Wisconsin. If the tax-option (S) corporation is doing business in and outside Wisconsin, this generally will be the amount from column d multiplied by the tax-option (S) corporation's apportionment percentage from item E.

CAUTION: Do not fill in column e for a shareholder who is a full-year resident of Wisconsin.

Shareholders That Are Full-Year Residents of Wisconsin

Individuals who are full-year residents of Wisconsin must report to Wisconsin all income or loss regardless of where it is earned or incurred, unless otherwise exempt (such as United States government interest).

Therefore, a tax-option (S) corporation that does business in and outside Wisconsin does not apportion a Wisconsin resident shareholder's share of its income, loss, and deductions between Wisconsin and elsewhere. The amount determined under Wisconsin law for each item is the shareholder's share, based on his or her percentage of stock ownership, of the amount on Schedule 5K, column d. Do not fill in column e.

Shareholders That Are Nonresidents

Individuals who are nonresidents of Wisconsin must report to Wisconsin all income or loss that is earned or incurred in Wisconsin.

If Corporation Does Business Only in Wisconsin. A nonresident shareholder's share of the adjustment and amount determined under Wisconsin law of each item is the shareholder's share, based on his or her percentage of stock ownership, of the amounts on Schedule 5K, columns c and d. Enter the amount from column d in column e.

If Corporation Does Business in and Outside Wisconsin. A nonresident shareholder's Wisconsin source amount in column e of each item is the shareholder's amount from column d that is attributable to Wisconsin based on apportionment or separate accounting, as appropriate.

If the corporation is a unitary, multistate corporation, compute the Wisconsin source amount of each share item by multiplying the amount in column d for that item by the apportionment percentage from item E.

If the corporation has nonapportionable income (loss) on Form N, line 14, compute the Wisconsin source amount in column e of any affected item by multiplying the amount of the nonapportionable share item from Schedule 5K, column d, that is attributed to Wisconsin on Form N by the nonresident shareholder's percentage of stock ownership.

If the corporation is a nonunitary, multistate corporation, compute the Wisconsin source amount in column e of each share item by multiplying the amount from Schedule 5K, column d, that is allocated to Wisconsin on a schedule similar to Form C by the nonresident shareholder's percentage of stock ownership.

Itemized Deduction Amounts. A shareholder may choose to treat items that are deductible on federal Schedule A in either of the following ways:

- As deductions that may be includable in the Wisconsin itemized deduction credit, or
- As modifications that are subtracted from federal adjusted gross income to arrive at Wisconsin adjusted gross income.

Show the amount that would be used in the Wisconsin itemized deduction credit in column d. Don't multiply this result by the Wisconsin apportionment percentage or allocate it in and outside Wisconsin using separate accounting, regardless of the shareholder's state of residence.

Include the amount that is deductible as a federal itemized deduction in the itemized deduction credit to the extent permitted under Wisconsin law. **If your federal itemized deductions were limited due to your income level, use the allowable deductions after the limitation is applied.**

For items claimed as subtraction modifications, the Wisconsin amount is limited to the amount actually allowed as an itemized deduction for federal purposes. **The subtraction is limited to the amount actually deductible for federal purposes. (For example, any limitation when federal itemized deductions are reduced due to federal adjusted gross income limits also apply to the subtraction modification).** For a nonresident or part-year resident shareholder of a multistate corporation, the Wisconsin amount is further limited to the portion that is attributable to Wisconsin based on apportionment or separate accounting, as appropriate. Therefore, for a nonresident or part-year resident shareholder of a multistate corporation, enter the Wisconsin source amount in column e.

Shareholders That Are Part-Year Residents

Individuals who are part-year residents of Wisconsin must report to Wisconsin all income or loss, regardless of where it is earned or incurred, while they were residents of Wisconsin and all income or loss earned or incurred in Wisconsin while they were nonresidents of Wisconsin.

If Corporation Does Business Only in Wisconsin. A part-year resident shareholder's share of the adjustment and amount under Wisconsin law of each item is the shareholder's share, based on his or her percentage of stock ownership, of the adjustment and amount determined under Wisconsin law shown on Schedule 5K, columns c and d, respectively. Enter the amount from column d in column e.

If Corporation Does Business in and Outside Wisconsin. Compute a part-year resident shareholder's Wisconsin source amount in column e of each item in two parts: one for the portion of the corporation's taxable year that the shareholder was a resident of Wisconsin and another for the portion of the corporation's taxable year that the shareholder was a nonresident of Wisconsin.

For this purpose, the amount of any share item is determined on a daily basis. That is, every share item is allocated between the resident and nonresident status of the shareholder based on the number of days during the corporation's taxable year that the shareholder was a resident or nonresident of Wisconsin. The shareholder's share of an item for each period (resident or nonresident) is determined in the same manner as that of full-year residents and nonresidents, respectively.

Schedule 5K-1, Line 9b – Enter portion of the net gain attributable to the sales of farm assets held more than one year. Neither include amounts treated as ordinary income for federal income tax purposes because of recapture of depreciation or for any other reason nor amounts treated as capital gain for federal income tax purposes from the sale or exchange of a lottery prize. "Farm assets" means livestock, farm equipment, farm real property, and farm depreciable property.

Lines 1 through 12, 14, 15, and 17d – The entries on these lines show your share of the federal amount (column (b)), adjustment (column (c)), and amount reportable under Wisconsin law (column (d)) for each of the items. For nonresident and part-year resident shareholders, the entries also show your share of the amount attributed to Wisconsin (column (e)).

These amounts don't take into account limitations on losses or other items that may have to be adjusted because of the adjusted basis of your stock and debt in the corporation, the at-risk limitations, or the passive activity limitations.

If the amount under Wisconsin law for any share item on lines 1 through 12, 14, 15, and 17d differs from the federal amount, your Schedule 5K-1 will have an amount in column (c). You must account for this difference on your Wisconsin franchise or income tax return. How you account for the difference depends on the return you are filing, the share item, and the reason for the difference.

If the difference in column (c) arises because a provision of the Internal Revenue Code doesn't apply for Wisconsin or a federal law change becomes effective for Wisconsin at a different time, you must complete Wisconsin Schedule I (Schedule B for estates and trusts) before filling in your Wisconsin income tax return. If the difference results from the tax-option (S) corporation making different elections for federal and Wisconsin purposes, you must recompute the federal adjusted gross income that you report on your Wisconsin return.

If the difference is a modification allowed in computing Wisconsin adjusted gross income, the treatment depends on which share item is affected and the return you are filing:

Modifications on Lines 1, 2, 3, 5, 6, 10, 11, 12, 14, and 17d:

- If you are filing Form 1, account for any modification to one of these share items by combining the amount from Schedule 5K-1, column (c), with any other Wisconsin modification and entering the total on the appropriate line of Form 1.
- If you are filing Form 1NPR, include in column B on the appropriate line of Form 1NPR, along with any other Wisconsin income or loss, the Wisconsin amount from column (e) of any share item reported on one of these lines.
- If you are filing Form 2, account for any modification to one of these share items by entering the amount from Schedule 5K-1, column (c), on Form 2, Schedule A.

Interest Income Modifications on Lines 4, 16a, and 17a:

Interest income that is exempt from federal income taxes but taxable by Wisconsin, such as state and local government bond interest, is shown as an **addition** on line 4, column (c) and as a **subtraction** on line 16a, column (c).

- If you are filing Form 1, combine the interest income amount from Schedule 5K-1, column (c), with any other interest modification and enter the total on the appropriate line of Form 1.
- If you are filing Form 1NPR, include in column B on Form 1NPR, along with any other Wisconsin interest income, the Wisconsin source amount of interest income from Schedule 5K-1, column (e).
- If you are filing Form 2, account for any modification by entering the amount from Schedule 5K-1, column (c), on Form 2, Schedule A.

Capital Gain Modifications on Lines 7 and 8:

Enter the Wisconsin amounts from column (d) (column (e) for nonresidents and part-year residents) of these share items on the appropriate lines of Wisconsin Schedule WD (Schedule WD (Form 2) for estates and trusts).

Section 1231 Gain/Loss Modifications on Line 9a:

See the instructions for Part II of Wisconsin Schedule T and recompute a federal Form 4797 as instructed.

Portion of the amount on Line 9a attributable to gains on sales of farm assets on Line 9b:

Enter portion of the net gain attributable to the sales of farm assets held more than one year. Neither include amounts treated as ordinary income for federal income tax purposes because of recapture of depreciation or for any other reason nor amounts treated as capital gain for federal income tax purposes from the sale or exchange of a lottery prize. "Farm assets" means livestock, farm equipment, farm real property, and farm depreciable property.

Itemized Deduction Modifications on Lines 12 and 17b:

Adjust the deduction items from federal Schedule A when figuring the Wisconsin itemized deduction credit (Form 1, Schedule 1, or Form 1NPR, Schedule 1). Increase or decrease, as appropriate, the amount from federal Schedule A by the amount on Schedule 5K-1, column (c).

Note: Rather than including the tax-option items deductible on federal Schedule A in the Wisconsin itemized deduction credit, you may treat these items as subtraction modifications to arrive at Wisconsin adjusted gross income. Your modification is limited to the amount actually deductible for federal purposes.

Include the amount that is deductible as a federal itemized deduction in the itemized deduction credit to the extent permitted under Wisconsin law. **If your federal itemized deductions were limited due to income level, use the allowable deductions after the limitation is applied.**

The subtraction is limited to the amount actually deductible for federal purposes. (For example, any limitation when federal itemized deductions are reduced due to federal adjusted gross income limits also apply to the subtraction modification).

If you are a nonresident of Wisconsin for any part of the corporation's taxable year, your modification is further limited to that portion of the deductible amount which is attributable to Wisconsin based on apportionment or separate accounting, as appropriate.

Credits Reportable on Schedule 5K-1, Line 13

Line 13a through 13h. Credits--Compute the credits on lines 13a through 13h in the same manner for shareholders who are full-year, part-year, or nonresidents of Wisconsin.

Note: Do not multiply the shareholder's proportionate or specially allocated share of the credits by the shareholder's apportionment percentage. Nonresidents and part-year residents are eligible for the full amount of credits similar to a full-year resident.

For each credit, enter the shareholder's proportionate or specially allocated share of the amount on Schedule 5K. Enter the abbreviation of the credit you are claiming next to the word "schedule" on line 13. The abbreviation for each credit is located in the upper left hand corner of the credit schedule and in parenthesis next to the description of the credit from the Schedule 5K instructions

Use a separate line for each credit you are claiming. For example, if you are claiming the enterprise zone jobs credit, enter "EC" next to the "Schedule" line. (**Note:** Only the early stage seed investment credit and supplement to the federal historic rehabilitation credit may be specially allocated. See the Schedule VC and HR instructions for details.)

Line 13i. Credit for Tax Paid to Other States – Complete this line only for full-year Wisconsin resident shareholders and part-year Wisconsin resident shareholders. Enter zero for shareholders who are nonresidents of Wisconsin or corporations.

For a full-year resident, enter in column d the shareholder's proportionate share of the tax credits on Schedule 5K-1, line 13i. For a part-year resident, enter in column d the amount computed by multiplying the credit on Schedule 5K-1, line 13i, by the shareholder's percentage of stock ownership, multiplied by the ratio of days that the shareholder was a resident of Wisconsin during the tax-option (S) corporation's taxable year to the total days in the tax-option (S) corporation's taxable year. Enter the result in column e.

Line 13j. Wisconsin Tax Withheld – Enter the amount from line 13j, column (e), on the "Wisconsin income tax withheld" line of your Wisconsin income or franchise tax return. Unless you elect to be included in a composite return (Form 1CNS), you must file a copy of Schedule 5K-1 with your Wisconsin income or franchise tax return if you claim this credit. If the tax-option (S) corporation was required to file Form PW-1 to withhold tax on behalf of its nonresident shareholders, enter in column d and column e the tax withholding allocated to the shareholder.

CAUTION: Do not enter your share of pass-through entity withholding as an estimated tax payment on your Wisconsin return.

Line 15. Alternative Minimum Tax Items – Enter the net amount from column (c) of line 15 on Wisconsin Schedule MT, line 8. If you are a nonresident of Wisconsin for any part of the corporation's taxable year, enter the difference between column b and column e on Schedule MT, line 8.

Lines 16a through 16c. Tax-Exempt Interest and Nondeductible Expenses – Differences in the amount of income that is exempt for federal and Wisconsin purposes are shown on lines 16a and 16b, column (c). Increases or decreases in the amount of nondeductible expenses are shown on line 16c, column (c). Use the amount from column (d) when computing the Wisconsin basis of your stock.

Line 16d. Property Distributions – Reduce your Wisconsin basis in stock of the corporation by the Wisconsin distributions on line 16d, column (d). If these distributions exceed your Wisconsin basis in stock and you were a Wisconsin resident when you received the distributions, treat the excess as a Wisconsin gain from the sale or exchange of property. Enter any Wisconsin gain on the appropriate line of Wisconsin Schedule WD.

Line 16e. Repayment of Loans from Shareholders – If the repayments on line 16e are made on indebtedness with a reduced Wisconsin basis and you received the repayments while you were a Wisconsin resident, the repayments result in income to you to the extent the repayments are more than the adjusted Wisconsin basis of the loan.

If you are filing Form 1, enter the amount of Wisconsin income realized on Wisconsin Schedule WD, if the loan was a capital asset. If the loan wasn't a capital asset, enter the difference between federal income and Wisconsin income on Form 1, line 4 or 11, as appropriate.

If you are filing Form 1NPR, enter the amount of Wisconsin income realized on Wisconsin Schedule WD, if the loan was a capital asset, or in column B of the appropriate line on Form 1NPR, if the loan wasn't a capital asset.

■ **Lines 17a Through 17c. Investment Income/Expense and Dividend Distributions –** Enter the shareholder's proportionate share of the federal amount, adjustment, and amount determined under Wisconsin law from Schedule 5K for each of these items.

Line 17c. Dividend Distributions – You must report the amount from column (d) or (e), as appropriate, as dividend income if you were a Wisconsin resident on the date you received it. The federal amount of the dividend distribution should have been reported to you on Form 1099-DIV.

If you are filing Form 1, enter the amount from line 17c, column (c), on Form 1, line 4 or 11, as appropriate. If you are filing Form 1NPR and the dividend distribution is reportable to Wisconsin, enter the amount from line 17c, column (e), on Form 1NPR, line 3, column B, along with any other dividend income reportable to Wisconsin.

Line 17d. Other Items and Amounts – If applicable, the corporation has provided supplemental information or has listed in the space provided, your pro rata share of items not included on lines 1 through 17c. This listing should include the federal amount, adjustment, amount under Wisconsin law, and Wisconsin source amount, if applicable, for each item. Account for any other share items listed on line 17d as necessary to include the taxable or deductible amount of each item as computed under Wisconsin law in your Wisconsin income.

If interest income from United States government obligations is listed, you must make an adjustment on your Wisconsin return since this income is taxable for federal income tax purposes, but not for Wisconsin purposes. If you are filing Form 1, include the federal amount of this interest income on line 7. If you are filing Form 1NPR, don't include this interest income on Form 1NPR, line 2, column B.

Include the following items on line 17d:

- The amount of interest income from United States government obligations that is included on Schedule 5K-1, line 4, column d (column e for nonresidents and part-year residents of Wisconsin).
- Information on the sale, exchange, or other disposition of property for which the section 179 expense deduction was claimed.
- If the tax-option (S) corporation is engaged in both farming and some other business activity, indicate the portion of each of the share items that is attributable to the farm operations. The shareholders use this information in applying the farm loss limitations.
- Any information needed by a shareholder to determine why the Wisconsin amount of any item differs from the federal amount.

Note: Tax-option (S) corporations whose Wisconsin shareholders may qualify for farmland preservation credit should provide a copy of the farmland property tax bill with the Schedule 5K-1 given to each Wisconsin shareholder. It isn't necessary for the tax-option (S) corporation to submit the property tax bill with the Schedules 5K-1 sent to the Department. Shareholders will compute their allowable credits based on their proportionate shares of the tax-option (S) corporation's property taxes. For additional information about farmland preservation credit, see the Wisconsin Schedule FC or FC-A instructions. If the tax-option (S) corporation is a member of one or more other pass-through entities, gross income includes the gross income attributable to those other pass-through entities.

Manufacturing and agriculture credit information: If the tax-option (S) corporation computed the manufacturing and agriculture credit on Schedule MA-M and/or MA-A, include on line 17d the amount of income that was used to compute the manufacturing and agriculture credit so that the

shareholders can use this information when completing Schedule MA-M or MA-A, Part II, *Computation of Business Income Limitation for individuals and fiduciaries*, if required.

Lines 18a and 18b. Related Entity Expenses – If the tax-option (S) corporation paid, accrued, or incurred management fees or interest, rental or intangible expenses to a related person or entity, the corporation completes lines 18a and 18b, as appropriate, to separately disclose the modifications it made to those items under the Wisconsin law requiring "addback" of related entity expenses. Shareholders should verify that any amounts on lines 18a and 18b are included in column (d). If they are not, the shareholder should enter the modifications from lines 18a and 18b on the appropriate lines of Form 1, Form 1NPR, or Form 2, as applicable.

NOTE: You must make separate addition and subtraction modifications on your return for related entity interest and rental expenses, even if the modifications offset one another.

■ **Line 19. Income (Loss) –** For each of columns d and e, combine lines 1 through 10. From the result, subtract the sum of lines 11 through 12. Add or subtract, as appropriate, any income or deductions reported on line 17d that affect the computation of taxable income.

Line 20. Gross Income – Individuals combine the amount from column (d) or (e), as appropriate, with gross income from other sources (if any) that is reportable to Wisconsin to determine whether they must file a Wisconsin income tax return. See the instructions for Form 1 or Form 1NPR for information about the filing requirements.

Enter the shareholder's share, based on the percentage of stock ownership, of the corporation's gross income that is reportable to Wisconsin. The shareholder will use this information to determine whether he or she must file a Wisconsin income tax return.

A full-year Wisconsin resident shareholder's share of the gross income is the shareholder's share, based on his or her percentage of stock ownership, of the amount shown on Schedule 5K, line 20, column d.

A nonresident or part-year resident shareholder's share of the gross income of a corporation that does business only in Wisconsin is the shareholder's share, based on his or her percentage of stock ownership, of the amount shown on Schedule 5K, line 20, column d. Enter the result in both column d and column e.

Compute a nonresident shareholder's share of the gross income of a unitary, multistate corporation by multiplying the amount from Schedule 5K, line 20, column d, by the nonresident shareholder's percentage of stock ownership and entering the result in column d. Multiply that amount by the apportionment percentage and enter the result in column e.

Compute a nonresident shareholder's share of the gross income of a nonunitary, multistate corporation by multiplying the amount from Schedule 5K, line 20, column d, by the nonresident shareholder's percentage of stock ownership and entering the result in column d. Allocate that amount in and outside Wisconsin and enter the portion allocated to Wisconsin in column e.

Compute a part-year resident shareholder's share of the gross income of a multistate corporation in two parts: one for the portion of the corporation's taxable year that the shareholder was a resident of Wisconsin and one for portion of the corporation's taxable year that the shareholder was a nonresident of Wisconsin. Enter the result in column e.

Example of Schedule 5K-1

Corporation S is a calendar-year multistate corporation with a 60% Wisconsin apportionment percentage and no nonapportionable income. Its two shareholders, A and B, each own 50% of the stock of Corporation S. Shareholder A was a Wisconsin resident during all of 2016. Shareholder B was a resident of Wisconsin until moving to Illinois on April 1, 2016. Therefore, Shareholder B was a part-year resident of Wisconsin for 2016, having been a resident for 90 days and a nonresident for 275 days.

Schedule 5K for 2016 shows the following amounts on the lines indicated:

Schedule 5K

(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amt. under WI law
1 Ordinary Income	$10,000	$(1,000)	$9,000
4 Interest Income	200	500	700
16a Tax-exempt interest income	500	(500)	-0-

The tax-exempt interest income is state and local government bond interest that is exempt from federal income taxes but taxable by Wisconsin. The adjustments in column c on lines 4 and 16a become part of the amount taxable by Wisconsin.

For Shareholder A, Schedule 5K-1 would show the following:

Shareholder A's Schedule 5K-1

(a) Distributive share items	(b) Federal amount	(c) Adjust-ment	(d) Amt. under WI law	(e) WI source amount
1 Ordinary In-come	$5,000	$(500)	$4,500	
4 Interest Income	100	250	350	
16a Tax-exempt interest income	250	(250)	-0-	

These amounts are determined by multiplying the amounts on Schedule 5K by Shareholder A's 50% stock ownership percentage. Column e is blank because shareholder A is a full-year Wisconsin resident.

For Shareholder B, Schedule 5K-1 would show the following:

Shareholder B's Schedule 5K-1

(a) Distributive share items	(b) Federal amount	(c) Adjust-ment	(d) Amt. under WI law	(e) WI source amount
1 Ordinary In-come	$5,000	$(500)	$4,500	$3,144
4 Interest Income	100	250	350	244
16a Tax-exempt interest income	250	(250)	-0-	

The amounts in columns b, c, and d are computed by multiplying the amount on Schedule 5K by Shareholder B's 50% stock ownership percentage. The Wisconsin source amounts in column e are computed in two parts: one for the 90-day period that Shareholder B was a resident of Wisconsin, and one for the 275-day period that Shareholder B was a nonresident of Wisconsin. The computations of Shareholder B's amounts in column e are shown next:

Shareholder B's Line 1: Ordinary Income			
Period of residence	$4,500 x 90/365	=	$1,110
Period of nonresidence	$4,500 x .6 x 275/365	=	$2,034
Total		=	$3,144

Shareholder B's Line 4: Interest Income			
Period of residence	$350 x 90/365	=	$86
Period of nonresidence	$350 x .6 x 275/365	=	$158
Total		=	$244

This example involves a multistate tax-option (S) corporation that would file its return using the apportionment method. If the corporation were one required to file using the separate accounting method, the calculations are similar. The calculations for Shareholder A and for the period that Shareholder B was a Wisconsin resident are the same as in the example above. The calculations for the period that Shareholder B was a nonresident of Wisconsin differ in that the Wisconsin amount from the separate accounting schedule similar to Form C (as discussed earlier) is used instead of the Wisconsin amount from Schedule 5K and the Wisconsin apportionment percentage.

Part IV – Shareholder's Share of Additions and Subtractions

The purpose of this schedule is to provide detail for the amounts entered on lines 1 through 12d, column c, of Schedule 5K-1, Part III. The total amount from this schedule should equal the amount of the adjustments reported on lines 1 through 12d in column c of Schedule 5K-1, Part III.

For many situations, the amounts from the additions/subtractions schedule will be entered in column c, line 1 or 2 of Schedules 5K and 5K-1.

If a taxpayer only has ordinary income, the net addition/subtraction will be entered on line 1, column c of Schedules 5K and 5K-1. Conversely, if the taxpayer only has net rental income, the net addition/subtraction will be entered on line 2, column c of those schedules.

If the taxpayer has both ordinary business income and rental real estate income, the net addition/subtraction should be allocated between column c, lines 1 and 2 of Schedules 5K and 5K-1.

For situations where a taxpayer has multiple sources of income and is required to make numerous adjustments in column c, the appropriate addition/subtraction adjustment should be made on each income/expense line in column c of Schedules 5K and 5K-1. The total adjustments made to column c should equal the total adjustment on the addition/subtraction schedule.

Line-by-Line Instructions

Additions:

■ **Line 1. State Taxes –** Enter taxes imposed by Wisconsin, any other state, and the District of Columbia that are value-added taxes, single business taxes, or taxes on or measured by net income, gross income, gross receipts, or capital stock and that were deducted in computing federal taxable income.

■ **Line 2. Related Entity Expenses –** A corporation must make an addition modification to "add back" expenses attributable to transactions with related parties. The expenses that must be added back include the following, if paid, accrued, or incurred to a related entity:

- Interest expenses

- Rent expenses
- Management fees
- Intangible expenses

Corporations that are members, or beneficiaries of pass-through entities must include on line 2 their share of the pass through entity's related entity expenses shown on line 18a of Schedule 5K-1.

NOTE: If the corporation meets one of the specific conditions provided in the Wisconsin Statutes, the corporation may take a subtraction modification on line 12 for some or all of the amount added back on this line. See the instructions for line 12 for details.

Definitions Applicable to Line 2. In determining whether an addback of related entity expenses is necessary, the following definitions apply:

"Related entity" **–** A related person under one of the following sections of the Internal Revenue Code (IRC):

- Section 267(b), which defines relationships through which taxpayers would be considered "related" for purposes of the disallowance of deduction or loss on transactions between related taxpayers
- Section 1563, relating to controlled groups of corporations, which is incorporated into section 267 by reference
- Section 707(b), relating to partners of partnerships, which is also incorporated into section 267 by reference

A "related entity" also includes certain real estate investment trusts (REITs) if they are not "qualified REITs." For more on qualified REITs, see *Wisconsin Tax Bulletin* #158, page 17, Questions A2 and A3.

"Interest expenses" **–** Interest that would otherwise be deductible under section 163 of the IRC and otherwise deductible in the computation of Wisconsin income.

"Rent expenses" **–** Gross amounts that would otherwise be deductible under the IRC, as modified for Wisconsin purposes, for the use of, or the right to use, real property and tangible personal property in connection with real property, including services rendered in connection with such property, regardless of how reported for financial accounting purposes and regardless of how computed.

"Management fees" **–** Expenses and costs, not including interest expenses, pertaining to accounts receivable, accounts payable, employee benefit plans, insurance, legal matters, payroll, data processing, purchasing, taxation, financial matters, securities, accounting, or reporting on compliance matters or similar activities, to the extent that the amounts would otherwise be deductible in determining net income under the IRC as modified for Wisconsin purposes.

"Intangible expenses" **–** Any of the following, to the extent the amounts would otherwise be deductible in determining net income under the IRC as modified for Wisconsin purposes:

- Expenses, losses, or costs for, related to, or directly or indirectly in connection with, the acquisition, use, maintenance, management, ownership, sale, exchange, or any other disposition of intangible property
- Losses related to, or incurred in connection directly or indirectly with, factoring transactions or discounting transactions
- Royalty, patent, technical, and copyright fees
- Licensing fees

If a corporation purchases an amortizable intangible asset from a related entity, the amortization expenses on that asset are considered intangible expenses and should be added back.

Schedule RT Filing Requirement for Amount on Line 2. If the amount a corporation reports on line 2 exceeds $100,000, the corporation must file Schedule RT, *Wisconsin Related Entity Expenses Disclosure Statement*, with its return. However, for corporations using apportionment, you may multiply the amount on line 2 by the apportionment percentage for purposes of determining whether you meet the $100,000 threshold for filing Schedule RT.

■ **Line 3. Expenses Related to Nontaxable Income –** Enter expenses included in federal taxable income that are directly or indirectly related to nontaxable income. Include a schedule with your return showing the payers and amounts of nontaxable income and explaining why that income isn't taxable.

Interest, dividends, and capital gains from the disposition of intangible assets are nontaxable if both of the following are true:

- The operations of the payer are not unitary with those of the payee, and
- The payer and payee are not related as parent company and subsidiary or affiliates and the investment activity from which the income is received is not an integral part of a unitary business.

Income may also be nontaxable under the principles of the U.S. Supreme Court decision in Allied-Signal v. Director, Div. of Taxation, 504 U.S. 768 (1992), if the investment is passive and does not serve an operational function.

For corporations subject to the Wisconsin income tax rather than the franchise tax, nontaxable income also includes interest on United States government obligations.

Examples of expenses related to nontaxable income include taxes, interest, and administrative fees related to the production of nontaxable income.

Also enter on this line any losses included in federal taxable income from disposing of assets, if gains from disposing those assets would have been non-taxable income if the assets were disposed of at a gain.

■ Line 4. Basis, Section 179, Depreciation Differences –

Difference in federal and Wisconsin basis of depreciated or amortized assets:

Starting with the first taxable year beginning in 2014, adjustments are to be made over a 5-year period for the difference between the Wisconsin adjusted basis and the federal adjusted basis of assets owned on the last day of the taxable year beginning in 2013. The assets must have been depreciated or amortized for both Wisconsin and federal tax purposes. As a result of these adjustments, the Wisconsin adjusted basis and the federal adjusted basis of these assets is deemed to be equal on the first day of the taxable year beginning in 2014.

You must first determine the difference between the Wisconsin adjusted basis and the federal adjusted basis of all assets that are being depreciated or amortized on the last day of your taxable year beginning in 2013. This would be on December 31, 2013, if you file your tax return on a calendar-year basis.

If the total federal adjusted basis of the assets is more than the total Wisconsin adjusted basis, complete the worksheet below to determine the required addition to income. As result of this addition, your Wisconsin adjusted basis of all depreciated or amortized assets on the first day of your taxable year beginning in 2014 (January 1, 2014, for calendar-year filers) will be the same as the federal adjusted basis.

Note: If the total Wisconsin adjusted basis is more than total federal adjusted basis, see the instructions for line 14.

Worksheet for Difference in Basis
(Keep for your records)

1. Combined federal adjusted basis of all depreciated and amortized assets as of the last day of the taxable year beginning in 2013……_____
2. Combined Wisconsin adjusted basis of all depreciated and amortized assets as of the last day of your taxable year beginning in 2013……_____
3. Subtract line 2 from line 1……_____
4. Multiply line 3 by .20 (20%). This is your addition to income for 2016.._____

Section 179 expenses:

Enter the amount by which the Wisconsin section 179 expense exceeds the federal section 179 expense.

For taxable years beginning on or after January 1, 2014, sections 179, 179A, 179B, 179C, 179D, and 179E of the Internal Revenue Code, related to expensing of depreciable business assets, apply for Wisconsin tax purposes. "Internal Revenue Code" means the federal Internal Revenue Code in effect for the year in which the property is placed in service.

For further information about the differences between the limitations for federal and Wisconsin purposes, see the section titled *Conformity with Internal Revenue Code and Exceptions* in the Form 5S instructions.

Depreciation/Amortization (not section 179 expense):

Enter the amount by which the federal deduction for depreciation or amortization exceeds the Wisconsin deduction. Include a schedule showing the computation details.

These differences can happen because of IRC sections not adopted for Wisconsin purposes and also because of differences that existed between Wisconsin and federal law for assets placed in service before January 1, 1987.

For 2014 and beyond, bonus depreciation was reinstituted by the federal government, and an adjustment is required to account for the depreciation difference because Wisconsin has not adopted federal bonus depreciation provisions. For Wisconsin purposes, depreciation, depletion, and amortization is computed based on the Internal Revenue Code in effect on January 1, 2014, and bonus depreciation was not in effect on that date.

■ Line 5. Amount by Which the Federal Basis of Assets Disposed of Exceeds the Wisconsin Basis – Enter the amount by which the federal basis of assets disposed of exceeds the Wisconsin basis. If more than one asset is disposed of, you may combine the bases of the assets so that you need only one entry on either this line. Provide a schedule showing the computation details.

For example, assume a corporation sold the following assets during the current taxable year:

	Federal Basis	**Wisconsin Basis**	**Difference**
Equipment	$1,500	$500	$1,000
Machinery	1,000	2,000	(1,000)
Building	20,000	10,000	10,000
Totals	$22,500	$12,500	$10,000

The amount to enter would be $10,000. If the Wisconsin bases of the assets had exceeded the federal bases, an entry would be made on line 15.

The modification may also apply in cases where a parent corporation disposes of subsidiary stock for which the basis is determined under Treas. Reg. §1.1502-32. See s. Tax 2.61(6)(f), Wisconsin Administrative Code, for details.

■ **Line 6. Addition for Credits Computed –** Enter the total amount of credits from the list provided that you computed on your 2016 return. Note: The manufacturing and agriculture credit is the credit computed in 2015.

■ **Line 6a.** Business development credit (Schedule BD)

■ **Line 6b.** Community rehabilitation program credit (Schedule CM)

■ **Line 6c.** Development zones credits (Schedule DC)

■ **Line 6d.** Economic development credit (Schedule ED)

■ **Line 6e.** Enterprise zone jobs credit (Schedule EC)

■ **Line 6f.** Jobs tax credit (Schedule JT)

■ **Line 6g.** Manufacturing and agriculture credit (2015 Schedule MA-M and MA-A)

■ **Line 6h.** Manufacturing investment credit (Schedule MI)

■ **Line 6i.** Research credits (Schedule R)

■ **Line 6j.** Technology zone credit (Schedule TC)

■ **Line 7. IRC Provisions Not Adopted for Wisconsin Purposes –** Wisconsin has adopted the Internal Revenue Code (IRC) as amended to December 31, 2013, with exceptions. If the federal amount is affected by an IRC provision not adopted by Wisconsin, an adjustment must be computed.

■ **Line 8. Adjustment for Built-In Gains Tax –** IRC section 1366(f), relating to the reduction in pass-through income for taxes at the S-corporation level, is modified by substituting the Wisconsin built-in gains tax for the taxes imposed under IRC sections 1374 and 1375. Thus, for Wisconsin purposes, the gain on the sale of an asset is reduced by any Wisconsin built-in gains tax paid by the corporation on that asset. For federal purposes, however, the gain is reduced by the federal built-in gains tax.

■ **Line 9. Addition for Federal Capital Gains and Excess Net Passive Income Taxes –** If the tax-option (S) corporation reduced net long-term capital gain by an amount of federal capital gains tax or reduced items of passive investment income by an amount of federal excess net passive income tax, those tax amounts must be reported as additions on line 9.

■ **Line 10. Other Additions –** Enter any other additions that have not been accounted for in the preceding lines.

Subtractions:

■ **Line 12. Related Entity Expenses Eligible for Subtraction –** If the corporation made an addition modification for related entity expenses on line 2, this is where you report the amount that qualifies for a deduction. Enter the amount of the expenses from line 2, that are deductible using the criteria described in *Conditions for Deducting Related Entity Expenses*, below.

For corporations that are members or shareholder's of pass-through entities, also include the amount of allowable related entity expense reported on line 18b of Schedule 5K-1.

Conditions for Deducting Related Entity Expenses. Section 71.80(23)(a)3., Wis. Stats., provides that a related entity expense that was added back on line 2, qualifies for a deduction if all of the following conditions are met:

- The primary motivation for the transaction was one or more business purposes other than the avoidance or reduction of state income or franchise taxes;
- The transaction changed the economic position of the taxpayer in a meaningful way apart from tax effects; and
- The expenses were paid, accrued, or incurred using terms that reflect an arm's length relationship.

Factors that may indicate that the expense does not qualify for a deduction include the following:

- There was no actual transfer of funds from the taxpayer to the related entity, or the funds were substantially returned to the taxpayer, either directly or indirectly.
- If the transaction was entered on the advice of a tax advisor, the advisor's fee was determined by reference to the tax savings.
- The related entity does not regularly engage in similar transactions with unrelated parties on terms substantially similar to those of the subject transaction.
- The transaction was not entered into at terms comparable to arm's length as determined by Treas. Reg. 1.482-1(b).
- There was no realistic expectation of profit from the transaction apart from the tax benefits.
- The transaction resulted in improper matching of income and expenses.
- An expense for the transaction was accrued under FIN 48.

The statutes (sec. 71.80(23)(a)1. and 2., Wis. Stats.) provide some additional conditions under which a related entity expense may qualify for a deduction, subject to some important exceptions. Those conditions are:

- If the expense was paid to a related entity that is merely acting as a conduit between the taxpayer and an unrelated entity, or
- If the related entity was subject to a tax measured by net income or receipts and the net income or receipts of the transaction were included in its tax base.

More Information on Related Entity Expenses. For more information on the deductibility of related entity expenses, see the Schedule RT instructions. Even if you weren't required to file Schedule RT for the expenses, the instructions to Schedule RT provide helpful information regarding deductibility of related entity expenses.

■ Line 13. Income from Related Entities Whose Expenses Were Disallowed – If the corporation has income from a related entity which paid, accrued, or incurred expenses to the corporation, and that related entity could not deduct those expenses according to the instructions for line 2, the corporation may subtract the corresponding income from its taxable income.

In order to claim a subtraction on line 13, the corporation must obtain Schedule RT-1 from the related entity and submit Schedule RT-1. See the Schedule RT-1 instructions for further details.

■ Line 14. Basis, Section 179, Depreciation Difference, Amortization of Assets –

Difference in federal and Wisconsin basis of depreciated or amortized assets:

Starting with the first taxable year beginning in 2014, adjustments are to be made over a 5-year period for the difference between the Wisconsin adjusted basis and the federal adjusted basis of assets owned on the last day of the taxable year beginning in 2013. The assets must have been depreciated or amortized for both Wisconsin and federal tax purposes. As a result of these adjustments, the Wisconsin adjusted basis and the federal adjusted basis of these assets is deemed to be equal on the first day of the taxable year beginning in 2014.

You must first determine the difference between the Wisconsin adjusted basis and the federal adjusted basis of all assets that are being depreciated or amortized on the last day of your taxable year beginning in 2013. This would be on December 31, 2013, if you file your tax return on a calendar-year basis.

If the total federal adjusted basis of the assets is less than the total Wisconsin adjusted basis, a subtraction must be claimed to adjust for this difference. As result of this subtraction, your Wisconsin adjusted basis of all depreciated or amortized assets on the first day of your taxable year beginning in 2014 (January 1, 2014, for calendar-year filers) will be the same as the federal adjusted basis.

Note: If the total Wisconsin adjusted basis is less than total federal adjusted basis, see the instructions for line 4.

Worksheet for Difference in Basis
(Keep for your records)

1. Combined Wisconsin adjusted basis of all depreciated and amortized assets as of the last day of the taxable year beginning in 2013……..._____
2. Combined federal adjusted basis of all depreciated and amortized assets as of the last day of your taxable year beginning in 2013……..…_____
3. Subtract line 2 from line 1……..…_____
4. Multiply line 3 by .20 (20%). This is your subtraction for 2016……..…_____

Section 179 expenses:

Enter the amount by which the federal section 179 expense exceeds the Wisconsin section 179 expense.
For taxable years beginning on or after January 1, 2014, sections 179, 179A, 179B, 179C, 179D, and 179E of the Internal Revenue Code, related to expensing of depreciable business assets, apply for Wisconsin tax purposes. "Internal Revenue Code" means the federal Internal Revenue Code in effect for the year in which the property is placed in service.

For further information about the differences between the limitations for federal and Wisconsin purposes, see the section titled *Conformity with Internal Revenue Code and Exceptions* in the Form 5S instructions.

Depreciation/Amortization:

Enter the amount by which the Wisconsin deduction for depreciation or amortization exceeds the federal deduction for depreciation or amortization. Include a schedule showing the computation details.

These differences can happen because of IRC sections not adopted for Wisconsin purposes and electing a different depreciation method under the Internal Revenue Code in effect for Wisconsin purposes.

■ Line 15. Amount by Which the Wisconsin Basis of Assets Disposed of Exceeds the Federal Basis – Sales of assets with different Wisconsin basis than federal basis will

also require you to make adjustments in column c. For example, a corporation sold the following assets, which had been held more than one year:

	Selling Price	Wisconsin Basis	Federal Basis
Equipment	$1,000	$1,500	$500
Machinery	15,000	5,000	17,500
Building	200,000	150,000	120,000

The gains (losses) realized on these transactions are –

	Wisconsin Gain (Loss)	Federal Gain (Loss)
Equipment	($500)	500
Machinery	10,000	(2,500)
Building	50,000	80,000
Total	$59,500	$78,000

The corporation must recompute a federal Form 4797, substituting the Wisconsin depreciation allowed or allowable and Wisconsin basis of the assets for the federal amounts.

For federal purposes, the $500 gain on the sale of the equipment is determined to be depreciation recapture, which is treated as ordinary gain and included in the corporation's ordinary income or loss on Form 5S, Schedule 5K, line 1, column b.

For Wisconsin purposes, $5,000 of the gain on the sale of the machinery is determined to be depreciation recapture, which is treated as ordinary gain.

The corporation enters $4,500 ($5,000 Wisconsin ordinary gain minus $500 federal ordinary gain) on Schedule 5K, line 1, column c. The corporation makes the following entries on Schedule 5K, line 9a: $77,500 in column b, $(23,000) in column c, and $54,500 in column d.

■ **Line 16. IRC Provisions Not Adopted for Wisconsin Purposes –** Wisconsin has adopted the Internal Revenue Code (IRC) as amended to December 31, 2013, with exceptions. If the federal amount is affected by an IRC provision not adopted by Wisconsin, an adjustment must be computed.

■ **Line 17. Adjustment for Built-In Gains Tax –** IRC section 1366(f), relating to the reduction in pass-through income for taxes at the S-corporation level, is modified by substituting the Wisconsin built-in gains tax for the taxes imposed under IRC sections 1374 and 1375. Thus, for Wisconsin purposes, the gain on the sale of an asset is reduced by any Wisconsin built-in gains tax paid by the corporation on that asset. For federal purposes, however, the gain is reduced by the federal built-in gains tax.

■ **Line 18. Federal Work Opportunity Credit Wages –** Enter wages that aren't deductible in computing federal income because they are being used in computing the federal work opportunity tax credit.

■ **Line 19. Federal Research Credit Expenses –** Enter research expenses that aren't deductible in computing federal income because they are being used in computing the federal credit for increasing research activities.

■ **Line 20. Other Subtractions –** Enter any other subtractions that have not been accounted for in the preceding lines.

Determining Wisconsin Income of Multistate Tax-Option (S) Corporations

Who Must Use Apportionment

Under the apportionment method, a corporation shows all income and deductions for the corporation as a whole and then assigns a part to Wisconsin according to a formula that determines Wisconsin net income. A corporation engaged in business in and outside Wisconsin is required to report a portion of its total company net income to Wisconsin using the apportionment method if its Wisconsin operations are a part of a unitary business, unless the Department gives permission to use separate accounting.

A unitary business is one that operates as a unit and can't be segregated into independently operating divisions or branches. The operations are integrated, and each division or branch is dependent upon or contributory to the operation of the business as a whole. It isn't necessary that each division or branch operating in Wisconsin contribute to the activities of all divisions or branches outside Wisconsin.

To use the apportionment method, a corporation must have business activity sufficient to create nexus in Wisconsin and at least one other state or foreign country.

"Nexus" means that a corporation's business activity is of such a degree that the state or foreign country has jurisdiction to impose an income tax or franchise tax measured by net income. Under Public Law 86-272, a state can't impose an income tax or franchise tax based on net income on a corporation selling tangible personal property if the corporation's only activity in the state is the solicitation of orders, which orders are approved outside the state and are filled by delivery from a point outside the state.

What Is the Apportionment Percentage

For unitary, multistate businesses (except direct air carriers, interstate air freight forwarders affiliated with a direct air carrier, motor carriers, railroads, pipeline companies, financial institutions, brokers-dealers, investment advisers, investment companies, underwriters, and telecommunications companies whose incomes are apportioned by special rules

of the Department), the apportionment percentage is determined by the ratio of Wisconsin sales to total company (corporation) sales.

For most companies, the apportionment percentage is computed on Form A-1. However, direct air carriers, interstate air freight forwarders affiliated with a direct air carrier, motor carriers, railroads, pipeline companies, and telecommunications companies should see Form A-2 and its instructions.

What Is Nonapportionable Income

Nonapportionable income is that income which is allocable directly to a particular state. It includes income or loss derived from the sale of nonbusiness real or tangible personal property or from rentals and royalties from nonbusiness real or tangible personal property. This income is assigned to the state where the property is located.

All income that is realized from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in Wisconsin shall be allocated to Wisconsin.

Total nonapportionable income (loss) is removed from total company net income before the apportionment percentage is applied. The Wisconsin nonapportionable income (loss) is then combined with the Wisconsin apportionable income to arrive at Wisconsin net income.

Corporate Partners or LLC Members

A corporation that is a general or limited partner includes its share of the numerator and denominator of the partnership's apportionment factors in the numerator and denominator of its apportionment factors. A corporation that is a member of a limited liability company (LLC) treated as a partnership for federal tax purposes includes its share of the numerator and denominator of the LLC's apportionment factors in the numerator and denominator of its apportionment factors. The corporation should request a detailed breakdown of the partnership's or LLC's items and amounts to be included in the computation of its apportionment factors.

Note: Income from a partnership or LLC may be nontaxable under the principles of the U.S. Supreme Court decision in *Allied-Signal v. Director, Div. of Taxation*, 504 U.S. 768 (1992), if the investment is passive and does not serve an operational function. In this case, the corporation would not include its share of the partnership's or LLC's apportionment factors in the numerator and denominator of its apportionment factors.

Separate Accounting

A corporation engaged in a nonunitary business in and outside Wisconsin must determine the amount of income attributable to Wisconsin by separate accounting. A nonunitary business is one in which the operations in Wisconsin aren't dependent upon or contributory to the operations outside Wisconsin. Under separate accounting, the corporation must keep separate records of the sales, cost of sales, and expenses for the Wisconsin business.

A unitary business may use separate accounting only with the approval of the Department. A request for such approval must set forth, in detail, the reasons why separate accounting will more clearly reflect the corporation's Wisconsin net income. It should be mailed to the Wisconsin Department of Revenue, Mail Stop 3-107, PO Box 8906, Madison, WI 53708-8906, before the end of the taxable year for which the use of separate accounting is desired.

Since a tax-option (S) corporation does not compute its income in the same manner as a C corporation, a tax-option (S) corporation cannot use Form C to determine its income attributable to Wisconsin. Instead, a corporation using separate accounting should prepare a 5-column schedule that provides the following information: (a) a listing of all of the distributive share items from Wisconsin Schedule 5K, column a, and any supplemental schedules, (b) the total amount from Wisconsin Schedule 5K, column d, for each of the share items, (c) the amount from Schedule 5K, column d attributable to Wisconsin, (d) the amount from Schedule 5k, column d attributable to other states, and (e) the basis for the allocation.

The schedule should also include a detailed explanation of how income and expenses were allocated in and outside Wisconsin. For example, if the allocation is based on actual expenses, write "Actual" in column e. If the allocation is based a percentage of sales at each location, enter the percentage in column e and provide details on how the percentage was computed.

Additional Information, Assistance, and Forms

Web Resources

The Department of Revenue's web page, available at revenue.wi.gov, has a number of resources to provide additional information and assistance, including:

- Related forms and their instructions
- Common questions
- Publications on specific tax topics
- The *Wisconsin Tax Bulletin*
- A home page specifically for combined reporting topics
- Links to the Wisconsin Statutes and Administrative Code

Contact Information

If you cannot find the answer to your question on the Department's web page, contact the Department using any of the following methods:

- E-mail your question to: DORFranchise@wisconsin.gov
- Call (608) 266-2772

  (Telephone help is also available using TTY equipment. Call the Wisconsin Telecommunications Relay System at 711 or, if no answer, (800) 947-3529).
- Send a fax to (608) 267-0834
- Write to the Customer Service and Education Bureau, Wisconsin Department of Revenue, Mail Stop 3-107, PO Box 8949, Madison, WI 53708-8949
- Call or visit any Department of Revenue office

Obtaining Forms

If you need forms or publications, you may:

- Download them from the Department's web site at revenue.wi.gov
- Request them online at revenue.wi.gov
- Call (608) 266-1961
- Call or visit any Department of Revenue office