

**WISCONSIN TAX
UPDATE**

Presented by
WISCONSIN DEPARTMENT OF REVENUE
Fall 2015

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Agenda

- **Tax Processing Update**
- **Law Changes**
- **Other Issues**
- **DOR Operations**

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Tax Processing Update

- **2015 individual tax return and homestead credit claim processing will begin when the IRS begins processing**
- **In prior years, WI began prior to the IRS**

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Tax Processing Update

- Individual tax returns due 4/18/16 for 2015 calendar year
- Federal law changed due dates for 2016 corporation and partnership tax returns
 - Corporations – 4/15 for calendar year filers
 - Partnerships – 3/15 for calendar year filers
- WI law change required to conform WI due dates to federal for corporations and partnerships

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Tax Processing Update

- 2015 Form Changes
 - Form 1X eliminated - Amended 2015 return generally should be filed on the same form on which the original return was filed (1, 1A, or WI-Z)
 - Schedule AR – New schedule to report explanation of changes on amended return

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Tax Processing Update

- 2015 Form Changes
 - Schedules MA-A and MA-M revised
 - Questions added to verify eligibility
 - Schedule MA-M
 - Requires claimant to enter DOR account number/parcel number to verify personal and real property assessed as manufacturing

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Tax Processing Update

- **2015 Form Changes**

- Schedules R-1 and R-2 eliminated
 - Increased Research Credit for Internal Combustion Engines and Energy Efficient Products
- Simplified computation of research credit allows all credits to be computed on revised Schedule R

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Tax Processing Update

- **2015 Form Changes**

- Schedules eliminated because associated credits/deductions may no longer be computed
 - HI - Health Insurance Risk-Sharing Plan Assessments Credit
 - JC - Job Creation Deduction
 - RB - Relocated Business Credit or Deduction
 - WB - Woody Biomass Harvesting and Processing Credit

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Tax Processing Update

- **2015 Form Changes**

- Forms 3 and 5S and Schedules 3K-1 and 5K- 1 revised
 - Lines added for additions and subtractions from federal income
 - Forms are now in landscape orientation

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Tax Processing Update

- **2015 Form Changes**

- Form A-1 – Requires interstate brokers-dealers, investment advisers, investment companies, and underwriters reporting income from sales of trading assets to indicate if trading assets were sourced using commercial domicile or customer billing address

- Section Tax 2.495, Wis. Adm. Code, was revised for taxable years beginning after December 31, 2014, to provide an election to source trading assets using customer billing address

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Tax Processing Update

- **Required Forms / Schedules**

- Software developers must support following forms/schedules for WI electronic filing approval
 - Schedule CS, College Savings Accounts
 - Schedule PS, Private School Tuition
 - Form 1-ES, Estimated Payment Voucher
 - Form EPV, Electronic Payment Voucher
 - Schedule AR, Explanation of Amended Return

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Tax Processing Update

- **Required Forms / Schedules**

- Software developers must support following forms/schedules for WI electronic filing approval
 - Schedule CR, Other Credits
 - Schedule CF, Carryforward of Unused Credit
 - Schedule MA-A, Wisconsin Agriculture Credit
 - Schedule MA-M, Wisconsin Manufacturing Credit
 - Schedule R, Wisconsin Research Credit

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Tax Processing Update

• **Common MeF Rejects**

- Claiming Tax Paid to Other States, but reporting zeroes on Schedule OS, line 24 (income tax by other state) and line 31 (income and franchise tax)
- Filing Schedule H without rent certificate or property tax bill
- On Form 1NPR, selecting married filing joint filing but resident status is not selected for each spouse

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Tax Processing Update

• **Common MeF Rejects**

- Claiming college saving subtraction without attaching Schedule CS
- Claiming private school tuition subtraction without attaching Schedule PS
- Filing amended return but not checking amended return check box

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Tax Processing Update

• **New MeF Rejects**

- Number of Schedule 3K-1s attached to Form 3 must exactly match number of partners on return
- Number of Schedule 5K-1s attached to Form 5S must exactly match number of shareholders on the return

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Tax Processing Update

- **New MeF Rejects**

- Credit carryforward is claimed on Schedule CR that requires Schedule CF **and** no Schedule CF with appropriate code is attached - for example
 - Post secondary education credit - code 21
 - Water consumption credit - code 31
- See Schedule CF instructions for complete list of codes

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Tax Processing Update

- **New MeF Rejects**

- If any credits below are claimed on Schedule CR and appropriate credit schedule is not attached
 - Manufacturing credit (MA-M)
 - Agriculture credit (MA-A)
 - Research credit (R)

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Tax Processing Update

- **New MeF Rejects**

- If following credits are claimed on Schedule CR and appropriate credit schedule is not attached
 - Historical rehabilitation (HR)
 - Technology zone (TC)
 - Development zone (DC)
 - Economic development (ED)
 - Early stage seed / angel investment (VC)
 - Enterprise zone jobs (EC)
 - Jobs (JT)

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Tax Processing Update

- **Software Information**

- DOR tests return submissions by software companies each year
- Testing ensures DOR can accept and process the return – it does not ensure accuracy of company's software
- DOR system rules detect many common errors through testing – other errors found during processing are communicated to software companies

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Tax Processing Update

- **Software Information**

- If software computations are incorrect or data entered is missing when return is printed, contact your software company
- Check regularly for software updates and keep your software updated throughout the tax season

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Tax Processing Update

- **Electronic Document Submission**

- Electronic method for submitting documents expanded for those requested during return processing
- Piloting this year with ID Verification letters and a few other document requests

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Tax Processing Update

- **Electronic Document Submission**
 - Process is similar to filing appeal
 - Must enter Letter ID from the letter requesting documents
 - Once proper Letter ID is entered, there is an entry screen with instructions for uploading documents

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Tax Processing Update

- **Information Returns**
 - Employers and payers doing business in Wisconsin must file W-2s and information returns (1099-MISC, 1099-R, etc.) even if no withholding to report
 - Information returns MUST have correct
 - 15-digit WI tax account number (starting with 036-)
 - Federal Employer Identification Number (FEIN)
 - Legal name

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Tax Processing Update

- **Information Returns**
 - Use 036-888888888-01 if payer has no WI withholding account
 - If software vendor does not include WI tax account number on copies for submitting on paper, enter number manually before mailing to DOR

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Tax Processing Update

- **Information Returns**

- Businesses can look up their Wisconsin tax account number on DOR's website
https://tap.revenue.wi.gov/services/_/
- Payroll service providers (ADP, Paychex, etc.) can use DOR's withholding data exchange program to verify WI tax account number, FEIN, legal name and filing frequency for clients in bulk
www.revenue.wi.gov/html/dataexchange.html

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Tax Processing Update

- **Information Returns**

- Data exchange can be done daily
- DOR processes files as received and sends back results next business day

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Tax Processing Update

- **Information Returns**

- Information returns must be filed electronically if employer/payer submitting 50 or more W-2s or 50 or more 1099s
- DOR is sending letters to payers that filed 50 or more information returns on paper advising them to file information returns electronically
- Payers can request a waiver from efilng information returns using Form EFT-102 if efilng creates an undue hardship

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Tax Processing Update

- **Information Returns**
 - Electronic filing methods available are
 - SSA .pdf files
 - SSA EFW2 format
 - My Tax Account – W-2s & 1099s must be keyed when Form WT-7 is entered (1099 submission is new this year)

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Tax Processing Update

- **Information Returns**
 - **New** - DOR will be assessing penalties on employers/payers who file more than 50 information returns on paper unless they have an efile waiver
 - Penalty is \$10 per information return incorrectly filed

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Tax Processing Update

- **ID Verification – 2014 Returns**
 - Additional rules put in place in February 2015 to address fraudulent returns filed primarily through Intuit (e.g., TurboTax) that were substantially similar to prior year returns
 - Addition ID verification increased customer service and created backlogs in customer document review and appeals
 - Appeals were primarily due to reversing refunds of recipients who ignored ID verification letter

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Tax Processing Update

• ID Verification Statistics - 1/1/15 – 10/2/15

Refund returns and claims evaluated	2,961,927
Letters sent to take quiz	212,032
Letters sent to supply ID verification documents	14,630
Quiz passed	170,182
Quiz failed	31,385
Persons who submitted valid ID verification documents	23,231
Persons who did not pass quiz and did not supply valid ID documents (refund denials)	30,280
Refund denials reversed on appeal*	5,114

*Approximately 1,000 appeals pending

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Tax Processing Update

• ID Verification – 2015 Returns

- Modify rules to reduce number of valid returns selected for ID verification
- New PIN process for some requiring ID verification (e.g., persons impacted by IRS transcript breach; reported ID theft victims, etc.)

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Tax Processing Update

• ID Verification – 2015 Returns

- Different mailing envelope for ID verification that will highlight importance of reading contents
- Caution on letters to contact DOR immediately if received request to verify ID but return not yet filed
- Electronic submission option for ID verification documents

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Tax Processing Update

- **Tax Credit Manager**

- Tax Credit Manager is a separate module in DOR's integrated tax system
- Allows DOR to track tax credits certified, computed, claimed and carried forward
- Currently, DOR is entering data related to WEDC certified credits
- Credits will be added as programming resources become available

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Tax Processing Update

- **Tax Credit Manager**

- Business rules will be developed to ensure amounts reported on future returns match data in the Tax Credit Manager
- Currently finding that data per returns does not always match data in DOR systems
- DOR may contact taxpayers to reconcile discrepancies to insure Tax Credit Manager data is accurate going forward

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Law Changes – Income/Franchise

- **Internal Revenue Code Update**

- Internal Revenue Code (IRC) for Wisconsin is still IRC as amended to December 31, 2013, with certain exceptions
- 2015-17 Budget Bill adopted certain provisions of the IRC enacted in 2014
 - ABLE accounts
 - Indian general welfare benefits
 - National Park Service grants
 - Rules and requirements for pension plans
 - Technical corrections

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Law Changes – Income/Franchise

- **Certain Teacher Expenses Allowed in 2015**

- Federal deduction for up to \$250 of certain expenses of elementary and secondary school teachers applies for Wisconsin
- To date, federal deduction has not been extended to 2015
- If extended for 2015, it will apply for Wisconsin

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Law Changes – Income/Franchise

- **College Tuition Subtraction**

- Subtraction for tuition and fees increased
 - \$6,943 for tax year 2015
 - \$6,940 for tax year 2014
- Phase-out amounts for tax year 2015
 - Single or HOH - \$52,500 - \$63,000
 - Married filing joint - \$83,990 - \$104,990
 - Married filing separate - \$42,000 - \$52,500

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Law Changes – Income/Franchise

- **College Savings Accounts - Contributions**

- Subtraction for contributions into account
 - \$3,100 for tax year 2015 (\$1,550 for MFS)
 - \$3,050 for tax year 2014 (\$1,520 for MFS)
 - \$3,000 for tax year 2013 (\$1,500 for MFS)
- Excess contributions may be carried forward starting with contributions in 2014 and later

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Law Changes – Income/Franchise

- **College Savings Accounts - Incoming Rollovers**

- Rollovers for 2014 tax year (thru 4/15/15)
 - Subtraction allowed (subject to \$3,050 limitation)
 - Excess contributions can be carried forward
- Rollovers for 2015 tax year between 1/1/15 and 4/15/15 may not be subtracted
- Rollovers occurring after 4/15/15
 - Subtraction amount limited to principal amount of rollover not previously deducted for Wisconsin (subject to yearly limitation)
 - Excess contributions can be carried forward

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Law Changes – Income/Franchise

- **College Savings Accounts - Outgoing Rollovers**

- Rollovers into another state's IRC 529 plan made on or after June 1, 2014 must be added to income to extent amount rolled over was previously subtracted from WI income
- A nonresident of WI who rolls over their account into another state's IRC 529 plan is not required to add amount to WI income

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Law Changes – Income/Franchise

- **College Savings Accounts – Distributions**

- Previously, WI followed federal law which added to income only nontaxable earnings in the account as part of the nonqualified distribution

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Law Changes – Income/Franchise

• College Savings Accounts – Distributions

- Effective 6/1/14 - Nonqualified distributions must be added to income (but only to extent of amounts contributed to account since 1/1/14)
 - Addition to income for nonqualified distributions made on or after 1/1/15 is limited to amounts previously deducted
- Effective 1/1/15 - Any distribution from an account must be added to income if amount withdrawn was previously subtracted and contributed within 365 days

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Law Changes – Income/Franchise

• College Savings Accounts - Carryovers

- Contributions eligible for subtraction made on or after 1/1/14 in excess of yearly limitation may be carried forward
- Carryover amounts must be reduced by any amount withdrawn that is in excess of required addition to income (e.g., nonqualified distributions or amounts contributed within 365 days)

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Law Changes – Income/Franchise

• College Savings Accounts - Carryovers

- Example
 - In 2014, Individual makes a \$100,000 rollover contribution that is eligible for a \$3,050 subtraction and \$96,950 is carried over
 - In 2015, Individual makes a \$20,000 nonqualified withdrawal
 - On individual's 2015 WI income tax return, Individual A must add to income the \$3,050 previously subtracted and reduce the carryover by \$16,950

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Law Changes – Income/Franchise

• College Savings Accounts - Subtraction

- A subtraction may only be claimed for contributions to Wisconsin college savings account
- Owners may authorize anyone to contribute to an account (not just relatives)
- Annual limit (\$3,100 for 2015) applies to each contributor to account (not to account itself)
- Person may be eligible for subtraction even if both the owner and beneficiary of the account

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Law Changes – Income/Franchise

• College Savings Accounts - Addition

- If a distribution from account is required to be added to income, addition to income is for owner of account (person authorized to make withdrawal)
- Person who contributed money is not penalized for nonqualified distribution (unless contributor is also owner of account)

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Law Changes – Income/Franchise

• ABLE Accounts

- Starting with 2015 tax year, if Wisconsin ABLE program is initiated by Department of Administration
- WI Subtraction allowed for
 - amounts deposited by the account owner or any other person, and
 - accrued earnings in the account that are redeposited
- Must be used for payment of qualified disability expenses

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Law Changes – Income/Franchise

- **ABLE Accounts**

- Federal law excludes from income earnings on an ABLE account
- A disabled person must be eligible to receive disability benefits under SSA.

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Law Changes – Income/Franchise

- **ABLE Accounts**

- Maximum total annual contributions to an account limited to federal gift tax exclusion (\$14,000 for 2015)
- Maximum aggregate contribution limit is same as Wisconsin College Savings Program (currently \$425,000)
- Addition to income required for any amount returned to account owner or account owner's estate upon death of account owner or account beneficiary

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Law Changes – Income/Franchise

- **ABLE Accounts**

- Addition to income required for earnings withdrawn from an account that are not used for qualified expenses of account beneficiary
- Medical expenses paid with funds withdrawn from an ABLE account may not be used in computation of itemized deduction credit

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Law Changes – Income/Franchise

- **Standard Deduction for Married Persons**

- Amounts increased for 2016 tax year
- Maximum amounts for married filing jointly and married filing separately
 - \$19,010 for MFJ
 - \$9,030 for MFS

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Law Changes – Income/Franchise

- **Exemption for Interest From Certain Municipal Obligations (Bucks Arena)**

- Applies to interest from bonds and notes issued by a sponsoring municipality borrowing to assist local exposition district created under subch. II of ch. 229, Wis. Stats.
- Exemption applies to individual, fiduciary, and corporation income tax
- Exemption does not apply to corporation franchise tax

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Law Changes – Income/Franchise

- **Donation Checkoffs Limited**

- A designation may not be made to checkoff that did not generate at least average of \$50,000 per year over most recent 3-year period
- No further designations may be made to affected checkoff for any taxable year
- As a result, Packer's football stadium and firefighter's memorial checkoffs have been eliminated for returns filed in 2015 and thereafter

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Law Changes – Income/Franchise

- **Deductions and Credits Not Available for 2015**

- ATV corridor payment subtraction
- Job creation deduction
- Relocated business credit or deduction
- Woody biomass harvesting and processing credit
- Health insurance risk-sharing investment credit

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Law Changes – Income/Franchise

- **Credits Not Available for 2016**

- Jobs tax credit
- Economic development tax credit

- **Claimants allocated these credits by WEDC before December 31, 2015, in a contract or letter of intent to enter into contract may continue to compute credits for as long as contract specifies**

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Law Changes – Income/Franchise

- **Manufacturing and Agriculture Credit**

- Claimant approved by DOR to be classified as manufacturer, but not eligible to be listed on DOR's manufacturing roll until January 1 of following year, may claim the credit in year approved
- Rate of credit reduced from 5.526% to 5.025% for 2015
- An exception to interest on underpayment of estimated tax is provided for underpayment interest resulting from reduction in rate of credit

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Law Changes – Income/Franchise

- **Research Credits Revised**

- Effective for taxable years beginning after 12/31/14
 - 5% credit for increasing research expenses increased to 5.75%
 - 10% credit for research related to designing internal combustion engines for vehicles increased to 11.5%
 - 10% credit for research related to the design and manufacturing of energy efficient lighting systems, building automation and control systems, and batteries for use in hybrid-electric vehicles increased to 11.5%

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Law Changes – Income/Franchise

- **Research Credits Revised**

- Credits are based on amount by which qualified research expenses exceed 50 % of average qualified research expenses over three preceding years
- Previously, expenses were determined using a base amount from 1984 to 1988 or an alternative incremental amount

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Law Changes – Income/Franchise

- **Research Credits Revised**

- If no qualified research expenses in any of three preceding years, credit is equal to 2.875% (for credit for increasing research) or 5.75% (for credits for activities related to internal combustion engines and certain energy efficient products) of qualified research expenses for year credit is claimed
- Definition of "qualified research expenses" for new research credits is same as for research credits prior to 2015

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Law Changes – Income/Franchise

• **Research Credits Revised**

- Schedules R-1 and R-2 eliminated for 2015
- Simplified computation is entirely on new Schedule R

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Law Changes – Income/Franchise

• **Business Development Credit Created**

- Refundable credit available for taxable years beginning on or after January 1, 2016
- Credit must be certified by WEDC
- Credit is based on wages, training costs, and personal property investment
- New Fact Sheet 1120 provides additional information

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Law Changes – Income/Franchise

• **Alternative Minimum Tax (AMT)**

- Exemption and income phase-out amounts for Wisconsin AMT are the same as federal AMT
- Provision effective for taxable years beginning on or after January 1, 2017

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Law Changes – Income/Franchise

- **Alternative Minimum Tax**

- Prior to January 1, 2017, alternative minimum tax exemption amounts and phase-out of exemption amounts are based on IRC as of December 31, 2000
- We don't know what the indexed amounts will be for 2017 - see next slide for comparison of 2014

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Law Changes – Income/Franchise

- **Alternative Minimum Tax**

Filing Status	2014 WI		2014 Federal	
	Exemption Amount	Income Phase-Out	Exemption Amount	Income Phase-Out
Married filing jointly	\$45,000	\$150,000	\$82,100	\$156,500
Single/head of household	\$33,750	\$112,500	\$52,800	\$117,300
Married filing separately	\$22,500	\$75,000	\$41,050	\$78,250
Estate or trust	\$22,500	\$75,000	\$23,500	\$78,250

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Law Changes – Sales/Use

- **Definition of Retailer Amended**

- Effective July 14, 2015
- Persons that operate distribution facility and make sales of tangible personal property (tpp) and items on behalf of third party sellers are not retailers if all of following apply
 1. Person (or affiliate) operates a distribution facility
 2. Person (or affiliate) sells tpp or items on behalf of a 3rd-party seller
 3. 3rd-party seller owns tpp or items and is disclosed to the customer as the seller
 4. Neither the person (nor affiliate) makes sales for which the customer takes possession at a location operated by the person (or affiliate)

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Law Changes – Sales/Use

• Definition of Retailer Amended

- "Distribution facility" means an establishment where tangible personal property is stored and processed for delivery to customer and where no retail sales of property are made
- "Third-party seller" means a person who owns tangible personal property or items, who enters into contract with person described in sec. 77.51(13b)(b), Wis. Stats., for sale of tangible personal property or items, and who is not an affiliate of person described in sec. 77.51(13b)(b), Wis. Stats.

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Law Changes – Sales/Use

• Definition of Retailer Amended

- The new provision does not apply to
 - Sales at auction
 - Sales of tpp or items owned or previously owned by person operating distribution facility (or by affiliates)
 - Sales of the following requiring registration or title
 - ATVs
 - Boats
 - Semitrailers
 - Snowmobiles
 - RVs as defined in sec. 340.01(48r), Wis. Stats.
 - Aircraft
 - Motor vehicles
 - Trailers
 - Utility terrain vehicles

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Law Changes – Sales/Use

• Definition of Retailer Amended

- Prior to July 14, 2015, a person may have been liable for the payment of sales tax if the person
 - Was acting for a known or disclosed principal,
 - Had possession of tangible personal property owned by the principal, and
 - Made sales of such property
- Example - Consignment sale – consignor is liable

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Law Changes – Sales/Use

- **Private Label Credit Card Bad Debt Deductions**
 - Effective July 1, 2017 (postponed from July 1, 2015)
 - Seller may claim sales/use tax bad debt deduction for amounts lender writes off as uncollectible in its books and records for federal income tax purposes
 - Applies to bad debts resulting from sales completed on or after July 1, 2017
 - Prior to July 1, 2017, seller is not allowed to claim bad debt deduction for someone else's bad debts

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Law Changes – Sales/Use

- **Private Label Credit Card Bad Debt Deductions**
 - Law does not change with respect to a seller claiming a bad debt deduction for amounts seller writes off as uncollectible in its own books or records for federal income tax purposes
 - For sales completed on or after July 1, 2017, seller may compute seller's bad debt deduction using an estimate, if method is approved by DOR
 - More details provided in June 2014 *Sales and Use Tax Report*

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Law Changes – Sales/Use

- **Nexus Creating Activities**
 - Effective July 14, 2015
 - Added examples from Tax 11.97, Wis. Adm. Code, to sec. 77.51(13g), Wis. Stats.
 - Services, repairing, or installing equipment or other tangible personal property or items, property or goods
 - Delivering tangible personal property or items into WI in vehicles operated by person that sells property or items that are delivered in WI
 - Performing construction activities in Wisconsin

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Law Changes – Sales/Use

• Nexus Creating Activities

- Effective July 14, 2015
- Clarified that nexus is created by retailer...
 - Maintaining, occupying, or using permanently or temporarily, directly or indirectly, or through a subsidiary, an agent, or some other person, an office, place of distribution, sales or same room or place, warehouse or storage place, or other place of business in Wisconsin

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Law Changes – Sales/Use

• Nexus Creating Activities

- Effective July 14, 2015
- Provides that nexus is created by having any representative in WI that
 - Performs services (not just taxable services)
 - Performs any other activities described in sec. 77.51(13g), Wis. Stats.

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Law Changes – Sales/Use

• Exemption for Farm-Raised Deer

- Effective January 1, 2015
- Sales of farm-raised deer sold to person operating hunting preserve or game farm in WI are exempt from WI sales and use tax
- "Farm-raised deer" means cervid that is kept in captivity or cervid that is present in wild and has ear tag or other mark identifying it as being raised on farm
- Farm-raised deer purchased and transferred to hunter as part of sale of admission to hunt are not eligible for resale exemption or exemption for property used exclusively in business of farming

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Law Changes – Sales/Use

• City of Rhinelander May Impose Premier Resort Area Tax

- Common council must adopt a resolution proclaiming its intent to impose tax, and
- Resolution must be approved by majority of electors in city at referendum
- Effective July 14, 2015

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Law Changes – Sales/Use

• City of Rhinelander May Impose Premier Resort Area Tax

- Although Rhinelander voters approved a referendum supporting the tax in April 2015, it was done before provision enacted authorizing it in state law
- Unsure when Rhinelander will hold another referendum

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Law Changes – Sales/Use

• Exemption Related to Items Used to Build Sports and Entertainment Arena Facilities

- Effective August 13, 2015
- Sales and use tax exemption for sale (or storage, use or other consumption) of
 - Building materials ➢ Equipment
 - Landscaping services ➢ Supplies
- Sold to owners, lessees, contractors, subcontractors, or builders if acquired solely for, or used solely in, construction or development of sports and entertainment facilities

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Law Changes – Sales/Use

- **Exemption Related to Items Used to Build Sports and Entertainment Arena Facilities**

"Sports and entertainment arena" is defined as the arena structure and land necessary for its location that is used as home arena of professional basketball team and for other sports, recreation, and entertainment activities (sec. 229.41(11e), Wis. Stats.)

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Law Changes – Sales/Use

- **Exemption Related to Items Used to Build Sports and Entertainment Arena Facilities**

"Sports and entertainment arena facilities" defined as sports and entertainment arena and structures, including all fixtures, equipment, and tangible personal property that are used primarily to support operation of the sports and entertainment arena or are functionally related to sports and entertainment arena, located on land not to exceed nine contiguous acres in area...

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Law Changes – Sales/Use

- **Exemption Related to Items Used to Build Sports and Entertainment Arena Facilities**

..."Sports and entertainment arena facilities" may include offices of professional basketball team or its affiliate, parking spaces and garages, storage or loading facilities, access ways, sidewalks, skywalk, plazas, transportation facilities, and sports team stores located on such land. Also includes parking structure to be constructed by a professional basketball team or its affiliate in conjunction with construction of sports and entertainment arena and to be owned by sponsoring municipality (sec. 229.41(11g), Wis. Stats.)

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Law Changes – Sales/Use

- **Local Exposition Tax Exemption for Sales By Food and Beverage Stores**

- Persons engaged in the retail trade as food and beverage store (sector 44-45, subsector 445 of North American Industry Classification System, 1997 edition) are not required to collect tax
- Not effective until after District's bonds and debts are retired

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Law Changes - Other

- **Delinquent Tax and Setoffs**

- A taxpayer has no right to or interest in refund until after setoffs (clarifying language)
- Sales or auctions of property of delinquent taxpayers permitted in any county or online
- Debt subject to offset expanded to include DCF assistance for families with needy children and county or municipal ambulance services
- County board may authorize clerk of Circuit Court to enter into an agreement with DOR for collection of court debts

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Law Changes - Other

- **Excise Tax on Pear Cider**

- Definition of cider expanded to include any alcohol beverage that is obtained from alcoholic fermentation of pears and that contains between 0.5% and 7% alcohol by volume
- Effective January 1, 2016, cider tax (1.71 cents per liter) instead of wine tax (6.605 cents per liter) will be imposed on hard cider produced from pear juice

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Other Issues

- **Football Stadium Tax Ends September 30, 2015**

- Stadium tax does not apply to
 - Sales and purchases made after September 30, 2015
 - Services billed after September 30, 2015
 - The lease, rental, or license of taxable products billed after September 30, 2015
- Special sunset rules

Bills issued on or after October 1, 2015 for services or for the lease, rental or license of tangible personal property should not include football stadium tax, regardless of whether services are furnished or the taxable products are leased, rented or licensed to the customer before that date

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Other Issues

- **Five-Year Basis Modification**

- 2014 subtraction equaled 20% of December 31, 2013 federal/WI basis difference
- Tax year 2015 is the second year of the modification
- 2015 subtraction is the same as it was in 2014 - difference in federal and WI basis of depreciable and amortizable assets owned on last day of 2013 tax year

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Other Issues

- **Depreciation and Section 179 Expense**

- Federal and WI basis of depreciable assets are the same on first day of 2014 tax year (1/1/14)
- Assets purchased in 2014 and 2015 may have different federal and WI depreciable basis (WI follows depreciation under IRC in effect on 1/1/14 which does not include bonus depreciation)
- 2014 and thereafter – WI follows federal section 179

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Other Issues

• Five-Year Basis Modification – Common Scenarios

- Taxpayer sells depreciable asset before five-year period is complete
 - Continue reporting 20% subtraction each year
- Taxpayer dies before five year period is complete
 - Report 20% in final year return, balance is lost

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Other Issues

• Five-Year Basis Modification – Common Scenarios

- Corporation/S Corporation liquidates before five-year period is complete
 - Entire remaining amount recognized in final year return
- Partnership liquidates before five-year period is complete
 - Partner's share of yearly modification is reported on its income tax return for remainder of five-year period

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Other Issues

• Credit for Taxes Paid to Other States (Schedule OS)

- WI residents may claim credit for net income taxes paid to Illinois on income that is taxable in both states (except wages)
- Illinois no longer requires filing of nonresident individual income tax return if nonresident's tax is fully paid by withholding taxes paid by pass-through entity
- Withholding payments are made by pass-through entity on Illinois replacement tax return

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Other Issues

• **Credit for Taxes Paid to Other States (Schedule OS)**

- Replacement return is deemed a composite return filed on behalf of the WI resident for purposes of claiming the credit for taxes paid to other states
- WI residents must attach the following to their return to obtain the credit
 - Schedule OS, and
 - Copy of the Illinois individual income tax return, or
 - Schedule 3K-1 or 5K-1 showing the share of tax paid on an individual income tax return filed on their behalf by a partnership or S corporation

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Other Issues

• **Credit for Taxes Paid to Other States (Schedule OS)**

- Note: If there is no Schedule 3K-1 or 5K-1 showing the share of tax paid on an individual income tax return filed on their behalf by a partnership or S corporation, attach a letter from partnership or S corporation that includes proportionate share of income taxable by Illinois, adjusted gross income, and net Illinois tax paid

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Other Issues

• **Entry Fees for Runs, Walks, and Races**

- Fees are subject to sales tax as admissions to amusement, athletic, entertainment, or recreational events
- Event organizer is responsible for paying sales tax on entry fees
- Items provided to participants free of charge (e.g., t-shirts, hats, reusable water bottles, etc.) are incidental to admission and organizer is subject to sales or use tax on purchase

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Other Issues

• **Entry Fees for Runs, Walks, and Races**

- If organizer of event is nonprofit organization
 - Entry fees may be exempt from sales tax under the occasional sales exemption (see Publication 206, Sales Tax Exemptions for Nonprofit Organizations)
 - Purchases may be exempt because the organization holds a Certificate of Exempt Status issued by DOR

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Other Issues

• **Business Registration – Disregarded Entities**

- DOR has modified online registration application so a business can better identify itself as a disregarded entity or owner of a disregarded entity
- Proper identification of disregarded entities and their relationships helps DOR process applications and issue permits and licenses more quickly and prevents your clients from receiving unnecessary notices
- Changes rolled out on September 14, 2015

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Other Issues

• **Standard Deduction for Dependents**

- The minimum standard deduction for dependents has increased
 - \$1,050 for tax year 2015
 - \$1,000 for tax year 2014

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Other Issues

- **Unclaimed Property Data Matching**

- More than 96,800 properties were matched against individual income tax returns, which was ALL property in DOR database
- \$11.6 million was returned to taxpayers in unclaimed property
- Process will start again in January for new properties reported to DOR in 2015

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Other Issues

- **Unclaimed Property – Holder Reports**

- Remind business clients to report any unclaimed property, including uncashed payroll checks, accounts payable checks, loan collateral, deposits, refunds, etc.
- Reports are due November 1st for prior fiscal year (July 1 – June 30)
- Interest is assessed on all late filed or late paid holder reports
- Review *Holder Report Guide* on DOR website for more information

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Other Issues

- **Copies of Federal Tax Returns**

- DOR no longer provides copies of federal income tax returns when WI tax return copies are requested
- IRS no longer provides a viewer to DOR necessary to print returns in a useable format
- Contact IRS for copies of federal income tax returns

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Other Issues

- **MTA Payment Plan**
 - DOR expects to roll out a new method for requesting a payment plan for unpaid taxes before the end of the year
 - Persons with access to My Tax Account can request a payment plan from the appropriate tax account
 - Allows entry of detailed financial information eliminating need for subsequent requests for information by revenue agent

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Other Issues

- **DOR and Email**
 - DOR does not
 - Initiate taxpayer communications through email except informational notices (system outages, Form 1099-G available, etc.)
 - Request detailed personal information through email
 - Send emails requesting your social security number, PIN numbers, passwords or similar access information for credit cards, banks or other financial accounts

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Other Issues

- **Contact by DOR by Email**
 - If you receive an email from someone claiming to be DOR or directing you to DOR site, do not
 - Reply
 - Open any attachments – they may contain malicious code that will infect your computer
 - Click on any links that direct you to a website other than DOR's official website (www.revenue.wi.gov)
 - DOR will respond to general email inquiries about tax law or a taxpayer's account with an email response

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Other Issues

• **Audit Projects**

- Federal audit report backlogs reduced
 - Receipt of first 2013 reports (generally six files per year) expected in January 2016
- Penalty on IRA and early retirement distributions
- Tuition expenses – federal deduction not added back and WI subtraction taken

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Other Issues

• **DOR Mobile App – New Features**

- Withholding Calculator
 - Helps complete Form WT-4
- Links to
 - Unclaimed property claims and holder reporting
 - My Tax Account

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Other Issues

• **New Sales and Use Tax Publications**

- 232 Dentists (3/15)
- 236 Restaurants and Bars (12/14)
- 239 Campgrounds (3/15)
- 247 Commercial Radio and Television Stations (12/14)

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Other Issues

• **New Sales and Use Tax Resources**

- Fact Sheets
 - 2106 - Occasional Sales Exemption for Nonprofit Org
 - 2107 - Rentals of Multipurpose Facilities
 - 2108 - Car Wash Services

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Other Issues

• **New Sales and Use Tax Resources**

- Articles
 - Amusement device operators
 - Hospital and medical clinics
 - Janitorial services
 - Motor vehicle and salvage pools

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Other Issues

• **New Sales and Use Tax Resources**

- Articles
 - Pet boarding
 - Horse boarding
 - Masonry and paving contractors
 - Sales and services to seasonal docks, floating piers, swim rafts, and other similar property

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DOR Operations – 2015-17 Budget

- 99 auditors and audit-related positions
- 3 resolution officers
- 11 collection agents for Statewide Debt Collection

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DOR Operations – Audit Positions

- Nexus investigations
- Sales tax auditing of out-of-state businesses
- Combined return auditing
- Pass-through entity auditing

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**DOR Operations –
Expected Additional Revenues**

	<u>FY16</u>	<u>FY17</u>
Nexus	\$6M	\$8M
Sales Tax	\$7.5M	\$15M
Corporation Tax-Combined	\$9M	\$29M
Pass-through entities	\$9M	\$30M
Total	<u>\$31.5M</u>	<u>\$82M</u>

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DOR Operations - Reorganized Audit Bureau

• **Four Sections**

- Individual Income
- Sales/Use
- Corporation
- Business & Pass-Through Income

• **Previously Office and Field Audit Sections**

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DOR Operations - Reorganized Audit Bureau

• **Program Development Unit**

- Audit selection
- Integrated tax system specific to Audit and data warehouse management

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DOR Operations – Performance Metrics

• **Bad Refunds Adjusted/Stopped**

Bad Refunds Adjusted/Stopped	Fraud Detection With Analytics	Processing Fraud	Earned Income Credit	Homestead Credit	Total for Specific Initiatives
FY15	\$11,050,119	\$14,225,044	\$16,682,990	\$15,828,093	\$57,786,246
FY14	\$3,550,473	\$13,099,311	\$17,710,656	\$15,299,425	\$49,659,865
FY13		\$3,434,613	\$14,257,838	\$12,480,794	\$30,173,245
FY12		\$1,702,300	\$9,341,511	\$14,694,458	\$25,738,269
Total					\$163,357,625

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DOR Operations – Performance Metrics

• E Filing

% Returns Received Electronically - FY14	
Individual Income	85%
Sales	92%
Corporate	84%

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DOR Operations – Performance Metrics

• Customer Service Bureau Call Center

FY15	Calls Answered	Answer Rate	Average Hold	Average Call Length
Business	139972	99.52%	0:00:40	0:04:27
Individual	218152	99.30%	0:00:56	0:04:06
Return Services	13125	99.52%	0:00:27	0:03:32
Corporation	12084	99.51%	0:00:34	0:03:23
Spanish	7799	98.75%	0:01:08	0:05:07
ID, UCP and Excise	35662	99.77%	0:00:28	0:03:55
Bureau Total	426794	99.42%	0:00:47	0:04:11

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DOR Operations – Performance Metrics

• Delinquent Tax Collections

Tax Type	FY13	FY14	FY15
Individual Income Tax	\$107,520,126	\$113,478,405	\$124,397,946
Corporation Franchise Tax	\$9,751,437	\$10,264,509	\$8,604,929
Sales & Use	\$52,936,943	\$46,151,941	\$46,453,259
Withholding	\$21,122,153	\$21,330,513	\$22,717,373
Misc	\$2,302,915	\$2,974,141	\$1,930,254
Other State Debt	\$9,870,323	\$12,053,147	\$15,021,382
Total	\$203,503,898	\$206,252,656	\$219,125,142

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DOR Resources

- **Practitioner Assistance**
 - Email
dortaxpractitioners@revenue.wi.gov
 - Phone
608-261-5199

****Do Not Share This Information****

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DOR Resources

Speaker Contact Information

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