

WITHHOLDING TAX UPDATE

2012-1

December 2012

The Withholding Tax Updates are no longer being printed, but will continue to be available at revenue.wi.gov.

In This Issue	Page	Page	
Withholding Tax Rates	1	Exemption for County Fair Associations Increased	5
Filing Frequency Changes	1	Job Creation Deduction	5
Did You Know?	1	Relocated Business Credit or Deduction	5
Deposit Report (WT-6) Filing and Payment Options	2	Veteran Employment Credit	5
Annual Reconciliation (WT-7) Filing and Payment Options	2	<i>My Tax Account</i> Update	5
Form W-2 Electronic Filing	2	Employees Claiming Exemption from Withholding	6
Wage Statements and Information Returns	2	Withholding Lock-In Letters	6
Automatic Reporting Waiver	3	Tips or Gratuities Received from Customers	6
Amended Annual Reconciliation	3	New Hire Reporting Requirement	6
Transit Pass & Commuter Fringe Benefits	3	Financial Institutions and Insurance Agencies	7
Health Care Benefits for Adult Children under Age 27 ...	4	Reminder Relating to Third Party Sick Pay	7
Treatment of Health Savings Accounts (HSAs)	4	Pass-Through Entities: Quarterly Estimated Payments ..	7
Reciprocity Agreements	4	Withholding Tax Electronic Mailing List	7
Retirement & Pension Payments	4	Where to Direct Questions	7
Election Worker Exemption from Income Tax Withholding	4		

WITHHOLDING TAX RATES

The current withholding tax rates remain in effect. These rates are available in [Publication W-166](#), *Wisconsin Employer's Withholding Tax Guide*, for payroll periods beginning on or after October 1, 2009.

FILING FREQUENCY CHANGES

Each year the department runs an annual scan process, which evaluates the amount of your deposits from the last year and adjusts your filing frequency accordingly. The department ran this process in November to determine your filing frequency for 2013 withholding tax deposits. Taxpayers are notified in writing of their new filing frequency if it was changed.

DID YOU KNOW?

You must file and pay your withholding deposit reports, Forms WT-6, electronically if your deposits were \$300 or more in the prior year. In addition, the annual reconciliation, Form WT-7, must be filed electronically. If these requirements create an undue hardship, you may request an e-filing/e-payment waiver by completing Form EFT-102, *Electronic Filing or Electronic Payment Waiver Request*.

There are several methods available to file and pay your withholding electronically, including the option to file and pay over the telephone. When you file/pay electronically, you have the added security of receiving a confirmation number for your transaction. Are you looking for a return, payment confirmation or letter from the department? Are you looking for your account status? This information is available to *My Tax Account* users as soon as they log in. *My Tax Account* is the department's most widely used electronic filing and payment option. Read on for additional filing options.

DEPOSIT REPORT (WT-6) FILING AND PAYMENT OPTIONS

Most employers that are required to withhold are required to file Form WT-6 electronically. Annual filers do not file Form WT-6. Electronic filing options include:

- [My Tax Account](#) – DOR website
New users see *Getting Started*
- ACH Credit – through your financial institution
- File Transfer – DOR website
- Credit Card – 1-800-272-9829; Use code 5800
- Withholding Telephone Filing System “TeleFile”
Call 608-261-5340 or 414-227-3895

ANNUAL RECONCILIATION (WT-7) FILING AND PAYMENT OPTIONS

Electronic filing options include:

- [My Tax Account](#) – DOR website
New users see *Getting Started*
- File Transfer – DOR website
- Withholding Telephone Filing System “TeleFile”
Call 608-261-5340 or 414-227-3895

Note: If you close your withholding account before December 31, Form WT-7, Forms W-2 and other information returns with Wisconsin withholding (Forms 1099-R, etc.) are due within **30** days of the account cease date.

FORM W-2 ELECTRONIC FILING

There are three ways to electronically file Forms W-2 with the Wisconsin Department of Revenue (DOR):

- In a Portable Document Format (PDF) file through DOR’s website. **Note:** DOR can only accept PDF files created on the Social Security Administration’s website. For step by step instructions, [click here](#).
- At the same time as the Annual Reconciliation (Form WT-7) through *My Tax Account*. A different method is required for federal W-2 reporting requirements.
- In an EFW2 text file through DOR’s [website](#). Specifications for submission are outlined in Wisconsin Publication [CO-001](#).

Submission through DOR’s website is easy and free. No PIN or password is required to transfer PDF or EFW2 text files.

WAGE STATEMENTS AND INFORMATION RETURNS

Employers or other payors must file wage statements (Forms W-2) and other information returns (Forms 1099, etc.) that have Wisconsin withholding with the Wisconsin Department of Revenue by January 31. The department requires employers and other payors with more than 50 Wisconsin wage or information returns to file such statements and returns electronically. See [Publication 509](#), *Filing Wage Statements and Information Returns Electronically* for further information.

Failure to file wage statements and other information returns by the due date, including any extension, or filing an incorrect or incomplete return, is subject to a penalty of \$10 for each statement or return. The penalty may be waived if there is reasonable cause. The penalty does not apply to Forms W-2G.

You may request an extension of 30 days for filing the annual reconciliation, Form WT-7. If an extension is granted, it also applies to corresponding wage statements and information returns.

Due dates for the following cannot be extended:

- Payment of Form WT-7
- Furnishing wage statements to employees
- Furnishing information returns to recipients
- Furnishing stock transfers on Form 8

Before requesting an extension, review the automatic reporting waiver article below. Extension requests must be made in writing, via email or through *My Tax Account*. Requests must be received by January 31.

Send email or written requests for waivers from filing wage and information returns electronically and requests for extensions of time to file wage and information returns electronically to:

E-file waivers:

Wisconsin Department of Revenue
PO Box 8949
Madison WI 53708-8949

DORWaiverRequest@revenue.wi.gov

Extensions:

Wisconsin Department of Revenue
PO Box 8946
Madison WI 53708-8946

DORWithholdingTax@revenue.wi.gov

See [Publication 117](#), *Guide to Wisconsin Information Returns*, for reporting requirements.

AUTOMATIC REPORTING WAIVER FOR CERTAIN WAGE STATEMENT AND INFORMATION RETURNS SENT TO DOR

Effective for tax year 2011 and forward, the Wisconsin Department of Revenue will automatically waive the employer requirement to submit Form W-2 to the department if you:

- Have no Wisconsin withholding to report, **and**
- Forms W-2 are sent to the SSA/IRS.

Effective for tax year 2011 and forward, the Wisconsin Department of Revenue will automatically waive the employer requirement to submit Wisconsin Forms 9b, federal Forms 1099-R and 1099-MISC to the department, for payments other than rents or royalties, if you:

- Have no Wisconsin withholding to report, **and**
- Forms 1099-R and 1099-MISC are sent to the SSA/IRS.

The department receives this information from the IRS.

Important! As an employer, if you have no requirement to withhold and no Wisconsin withholding to report, you do not need an active Wisconsin withholding tax number. If you close your Wisconsin withholding account, Form WT-7, Forms W-2, and other information returns (Forms 1099, etc.) with Wisconsin withholding, are due within 30 days of the account cease date.

AMENDED ANNUAL RECONCILIATION (WT-7)

If you discover an error on a Form WT-7 that was already filed, file another WT-7 with the correct information and note that it is an amended return. How you do this will depend on how you file your return. Include an explanation for the change. File corrected wage statements and information returns (Forms W-2, W-2G, 1099, etc.) to support the change, but only those containing errors and only to report corrected amounts withheld. You do not need to file an amended WT-7 to report errors in employee wages paid, employee social security numbers (SSN) or your federal employee identification number (FEIN). Instead, simply file your corrected wage statements. If it is necessary to correct any wage statements, be sure to furnish corrected copies of the statements to the affected employees and advise them to file the corrected copies with their individual income tax returns.

TRANSIT PASS AND COMMUTER FRINGE BENEFITS

The 2012 federal treatment of transit pass and commuter fringe benefits is unknown at this time. In 2011, the treatment of transit pass and commuter fringe benefits was the only difference between federal and Wisconsin law that related to wages and reporting on the 2011 Form W-2.

The 2011 treatment:

- For federal purposes, the amount that could be excluded from gross income for the transit pass and commuter fringe benefits was limited to \$230 per month.
- For Wisconsin purposes, the amount that could be excluded from gross income for the transit pass and commuter fringe benefits was limited to \$120 per month.

The difference expired January 1, 2012. However, Congress may consider an extension of the increase in the transit pass and commuter fringe benefit. If an extension is enacted into law, there will be a difference between federal and Wisconsin reporting. If there is no federal extension enacted, the federal and Wisconsin amounts will be the same. However, the allowable benefits will most likely increase based on 2012 federal inflation adjustments.

If required to report a difference on the Form W-2, employers must either:

- Include the amount that is taxable for Wisconsin purposes, but not taxable for federal purposes, in Box 16 of the Form W-2, or
- Provide the employee with a supplemental “Wisconsin Only” Form W-2 with the taxable benefits shown in Box 16.

HEALTH CARE BENEFITS FOR ADULT CHILDREN UNDER AGE 27

Effective for taxable years beginning on or after January 1, 2011, Wisconsin adopted the federal provisions relating to the treatment of health insurance benefits provided to an adult child who has not attained the age of 27 as of the end of the tax year.

More information on the treatment of health care benefits for adult children is available at:

revenue.wi.gov/taxpro/news/111107.html.

TREATMENT OF HEALTH SAVINGS ACCOUNTS (HSAs)

Effective for taxable years beginning in 2011 and after, Wisconsin follows the federal provisions relating to HSAs. The only difference is the imposition of penalties. The Wisconsin penalty for excess contributions that are not withdrawn is equal to 33 percent of the federal penalty. The Wisconsin penalty for distributions not used for qualified medical expenses is 33 percent of the federal 20 percent penalty.

For more information on the treatment of HSAs, go to revenue.wi.gov/taxpro/fact/healthsavings.pdf.

RECIPROCITY AGREEMENTS

Wisconsin has reciprocity agreements with Illinois, Indiana, Kentucky, and Michigan. Persons who employ residents of those states are not required to withhold Wisconsin income taxes from wages paid to such employees. Written verification is required to relieve the employer from withholding Wisconsin income taxes from such employee’s wages. [Form W-220, Nonresident Employee’s Withholding Reciprocity Declaration](#), may be used for this purpose. For further information on reciprocity, see [Publication 121, Reciprocity](#).

While Wisconsin does not have a reciprocity agreement with Minnesota, there is a special withholding arrangement for employers of Wisconsin residents working in Minnesota. Wisconsin withholding will not be required when:

- The employee is a legal resident of Wisconsin when the wages are earned in Minnesota, **and**
- The wages earned are subject to MN withholding and also Wisconsin withholding

For additional information regarding, this special withholding arrangement, visit revenue.wi.gov/taxpro/news/100120.html.

RETIREMENT AND PENSION PAYMENTS EXEMPT FROM INCOME TAX WITHHOLDING

Pension and retirement income do not fall within the definition of wages under Wisconsin law. Therefore, withholding is not required on retirement and pension payments. However, the recipient may request that the payer withhold Wisconsin income tax from such payments. The request must be in writing and the amount withheld from each payment must be \$5 or more.

If Wisconsin income tax is not withheld, the recipient may be required to make estimated tax payments. Generally, individuals that expect to pay \$200 or more with their income tax return must make estimated tax payments. Individuals may make estimated payments online at <https://tap.revenue.wi.gov/pay>.

See [Publication 126, How Your Retirement Benefits are Taxed](#) for additional information.

ELECTION WORKER EXEMPTION FROM INCOME TAX WITHHOLDING

Wages paid to an election worker are not subject to income tax withholding. However, all wages earned by the election worker are subject to income tax.

Wisconsin Treatment

Wages paid to election workers for services performed in national, state, county, and municipal elections are not subject to Wisconsin income tax withholding. Employers must report payments of \$600 or more to election workers on Form W-2. Do not use federal Form 1099 or Wisconsin Form 9b.

Federal Treatment

Internal Revenue Service [Publication 15, Employer's Tax Guide](#), directs governments to report payments of \$600 or more to election workers for services performed in national, state, county, and municipal elections on Form W-2. Governments must report payments less than \$600 to election workers on Form W-2 if social security or Medicare taxes were withheld. Wages paid to election workers are not subject to federal income tax withholding.

EXEMPTION FOR COUNTY FAIR ASSOCIATIONS INCREASED

Effective January 1, 2012, a county fair association is not required to withhold from an employee who receives less than \$500 annually in wages or salary from the association. Under prior law, the exemption amount was \$100.

JOB CREATION DEDUCTION

For taxable years beginning on or after January 1, 2011, a subtraction from federal income is allowed based on the increase in the number of full-time equivalent employees that are employed in Wisconsin during the taxable year. The subtraction from federal income is equal to \$2,000 per eligible employee for businesses with gross receipts of greater than \$5 million and \$4,000 per eligible employee for businesses with gross receipts of \$5 million or less.

Use Schedule JC to claim the job creation deduction. For more information on this deduction, go to revenue.wi.gov/taxpro/fact/jobcreation.pdf. For clarification on the calculation of full-time equivalent employees, see Administrative Rule 3.05(2)(c).

RELOCATED BUSINESS CREDIT OR DEDUCTION

Corporate Franchise/Income Tax – For taxable years beginning on or after January 1, 2011, for two consecutive taxable years beginning with the year in which the taxpayer's business relocates to Wisconsin from another state or country and begins doing business in Wisconsin, a credit is allowed equal to the amount of income or franchise tax liability after applying all other allowable credits, deductions, and exclusions.

Individual and Fiduciary Income Taxes – For taxable years beginning on or after January 1, 2011, for two consecutive taxable years beginning with the year in which the taxpayer's business relocates to Wisconsin from another state or country and begins doing business in Wisconsin, a subtraction from federal income is allowed for the net business income earned by the relocated business.

Use Schedule RB to claim the relocated business credit or deduction. For more information on this deduction, go to revenue.wi.gov/taxpro/fact/relocated.pdf.

VETERAN EMPLOYMENT CREDIT

For taxable years beginning on or after January 1, 2012, this credit is available to businesses who have hired certain disabled veterans. For each qualifying veteran hired for a full-time job, the credit is \$4,000 in the taxable year in which the veteran is hired and \$2,000 in each of the next three taxable years.

For each qualifying veteran hired for a part-time job, the credit is up to \$2,000 in the taxable year in which the veteran is hired and up to \$1,000 in each of the next three taxable years.

The veteran must not have voluntarily or involuntarily left his or her employment with the employer during the taxable year for which the employer is computing the credit. That is, if the veteran leaves employment during the taxable year for any reason, the employer cannot compute the credit based on that veteran.

Specific definitions and limitations apply to this credit. See revenue.wi.gov/taxpro/fact/veteran.pdf for more information.

MY TAX ACCOUNT UPDATE

We have continued to improve *My Tax Account* based on your feedback.

New features include:

- Third party preparer access to submit name and address changes, request to close or reactivate accounts, view collection information and request payment plans
- Additional tax types, such as pass-through withholding, composite returns and certain excise taxes
- Revised payment page
- Performance optimization and visual enhancements
- Revised email reminders

Please keep your profile information (i.e., email address) updated in *My Tax Account* to receive important alerts and updates.

EMPLOYEES CLAIMING EXEMPTION FROM WITHHOLDING (FORMS W-4 and WT-4)

Wisconsin law requires that a copy of the appropriate exemption form be filed with the department whenever either of the following conditions exists:

- The employee claims more than 10 exemptions. Send a copy of either federal Form W-4 or Wisconsin Form WT-4.
- The employee claims complete exemption from Wisconsin withholding and earns over \$200 a week. Send a copy of Wisconsin Form WT-4. Form WT-4 is the only form that can be used to claim complete exemption from Wisconsin withholding. Federal Form W-4 cannot be substituted.

Send the above Forms W-4 and Forms WT-4 to: Wisconsin Department of Revenue, Audit Bureau, PO Box 8906, Madison, WI 53708-8906.

When an employee is claiming complete exemption from Wisconsin withholding tax, a new WT-4 must be filed annually. The employer must receive a completed WT-4 for the current income year on or before April 30 of that year. If the employee fails to furnish an exemption form, then the employee shall be considered as claiming zero withholding exemptions.

WITHHOLDING LOCK-IN LETTERS ISSUED TO EMPLOYERS AND EMPLOYEES

Wisconsin law allows the department to void a current Wisconsin withholding exemption certificate if it appears that an employee has filed an incorrect certificate, form or agreement with an employer. To void a current exemption certificate, the department notifies the employer and employee by issuing a withholding lock-in letter. A lock-in letter voids the current withholding exemption certificate (Form WT-4/W-4) that the employer currently has in place for the employee in determining Wisconsin withholding. It mandates that withholding be based on a specified number of exemptions. The employer is required to withhold based on the number of exemptions stated in the lock-in letter. The lock-in letter remains in effect indefinitely until the employer is notified otherwise by the department. Employers failing to honor a withholding lock-in letter may be subject to penalties.

TIPS OR GRATUITIES RECEIVED FROM CUSTOMERS

All tips employees receive are income and subject to federal and state income tax. For withholding purposes, employees must report tips to their employers each month that tips or gratuities received by the employee total \$20 or more. Employers must treat the total tips and gratuities reported by the employee as wages, and determine the required amount of Wisconsin tax to be withheld. Such tax is then withheld from a payment of regular wages earned by the employee (or collected from the employee).

Reporting tips to the employer is important. It allows the employer to withhold the correct amount of tax and report the correct amount of earnings to the Social Security Administration (which affects benefits upon retirement or disability).

Additional information for employees is provided in federal [Publication 531](#), *Reporting Tip Income*.

Additional information for employers is provided in federal [Publication 15](#), *Employer's Tax Guide*.

NEW HIRE REPORTING REQUIREMENT

All employers with a federal employer identification number must report all newly hired or rehired employees. A newly hired employee is someone who has not worked for you before or is rehired, recalled, or returning after an unpaid interval of more than 60 days. Employers must report all of their newly hired employees within **20 days** after the employee starts working for them (or returns to work when rehired or recalled).

New Hire is a national program required by both state and federal laws. It is designed to aid in locating parents who owe child support. Child support money helps families stay off assistance, helps custodial parents provide a better life for their children, and reduces the tax burden for all taxpayers.

Internet reporting is an easy and cost effective way to report new hires. To begin reporting, visit the New Hire website at www.wi-newhire.com or call the Wisconsin New Hire Reporting Center toll free at 1-888-300-4473.

REPORTING WISCONSIN INCOME TAX WITHHELD BY FINANCIAL INSTITUTIONS AND INSURANCE AGENCIES

All banks, credit unions, insurance agencies and other employers who withhold from employee wages (Forms W-2) and **also** withhold from interest and dividends (Forms 1099-DIV, 1099-INT, etc.) must report all Wisconsin withholding on a single Form WT-7. If an institution has a third-party preparer filing Form WT-7 on their behalf, that form should include the total amount withheld from wages, interest and dividends.

REMINDER RELATING TO THIRD PARTY SICK PAY

Wisconsin does not follow the federal provisions relating to payments of sick pay made by third parties (e.g., an insurance company). Wisconsin statutes provide that when a third party payer of sick pay makes payments directly to the employee and the employee has provided a written request to withhold Wisconsin income tax from those payments, the third party payor must report and remit the income tax withheld from sick pay, not the employer.

Therefore, for Wisconsin purposes, the payor of third party sick pay plans who are withholding Wisconsin income tax must issue a wage statement (federal Form W-2) directly to the individual who received the sick pay. The Form W-2 must report the amount of taxable sick pay and the total amount of Wisconsin income tax withheld.

PASS-THROUGH ENTITIES: QUARTERLY ESTIMATED PAYMENTS

A pass-through entity is required to pay quarterly estimated withholding tax on a nonresident member's share of income attributable to Wisconsin.

The pass-through entity must make quarterly payments of withholding tax on or before the **15th day of the 3rd, 6th, 9th, and 12th** month of the taxable year. If you have obtained a waiver from electronic payment, use Form PW-ES, *Wisconsin Pass-Through Entity Withholding Estimated Payment Voucher*, to make quarterly payments of estimated nonresident withholding tax.

Pass-through entities must **also** file Form PW-1 annually to report estimated withholding tax paid and to pay any additional withholding tax due on behalf of their nonresident shareholders, partners, members, or beneficiaries.

You can file Form PW-1 through *My Tax Account* at <https://tap.revenue.wi.gov/mta> or through the Federal/State E-File Program, which uses approved third-party vendor software. Visit revenue.wi.gov/eserv/pw/index.html for information about electronically filing Form PW-1.

See revenue.wi.gov/faqs/ise/pass.html for answers to frequently asked questions about pass-through entity withholding. For information on the use of composite returns by pass-through entities visit revenue.wi.gov/taxpro/fact/composite.pdf.

WITHHOLDING TAX ELECTRONIC MAILING LIST

Subscribe **now** to the department's withholding tax electronic mailing list to receive withholding tax related communications at revenue.wi.gov/html/lists.html.

WHERE TO DIRECT QUESTIONS

Wisconsin Department of Revenue
Mail Stop 5-77
PO Box 8949
Madison WI 53708-8949

Email: dorwithholdingtax@revenue.wi.gov
Phone: 608-266-2776
Visit: revenue.wi.gov/withholding