

INSTRUCTIONS FOR COMPLETING WISCONSIN SCHEDULE I-1996

INTRODUCTION—Generally, the Wisconsin Statutes require that the computation of taxable income on the 1996 Wisconsin income tax return is to be based on the Internal Revenue Code enacted as of December 31, 1995.

As a result, certain income and deduction items may be different for Wisconsin and federal purposes. Any difference must be adjusted on this schedule. A description of items requiring adjustment can be found under **ITEMS REQUIRING ADJUSTMENT**.

WHO MUST FILE—If the computation of your federal adjusted gross income or itemized deductions reflects any of the differences in Wisconsin and federal law for 1996, you must complete this schedule and attach it to your Wisconsin income tax return, Form 1 or Form 1NPR.

To the extent Schedule I adjustments in a prior year affect income or expense items in 1996 (e.g., ACRS depreciation was not allowed to be claimed on residential real property or certain farm property placed in service during 1986), you must also make adjustments on Schedule I for 1996.

It also may be necessary to prepare a 1996 Schedule I to adjust the amount of gain or loss reportable from sales of certain assets during 1996. See the instructions for lines 2 and 3 under **SPECIFIC INSTRUCTIONS**.

PARTNERS, BENEFICIARIES OF ESTATES AND TRUSTS, AND SHAREHOLDERS OF TAX-OPTION (S) CORPORATIONS—The income and deduction items computed on the Wisconsin returns of partnerships, estates and trusts, and tax-option (S) corporations may also be affected by the differences between Wisconsin and federal law for 1996. As a result, the distributive shares of these items which are reportable on the individual Wisconsin income tax returns of the respective partners, beneficiaries, and shareholders may differ for Wisconsin and federal income tax purposes. Such partners, beneficiaries, and shareholders should receive notification from the partnership, estate or trust, or tax-option (S) corporation of the amounts reportable for Wisconsin purposes. By comparing the amounts reportable for Wisconsin and federal purposes, the partner, beneficiary, or shareholder should determine the items which differ and make the appropriate adjustments.

SPECIFIC INSTRUCTIONS

(Numbered to correspond with the line numbers on Schedule I)

INSTRUCTIONS FOR PART I

1. Fill in your 1996 federal adjusted gross income from line 31 of your federal Form 1040.
- 2 & 3. If you sold or otherwise disposed of certain property during 1996, the gain or loss reportable from such sale may differ for Wisconsin and federal purposes due to Schedule I adjustments made in the current year or a prior year. This would occur, for example, when different rates of depreciation or amortization were allowable for Wisconsin and federal purposes in 1975 or thereafter.

To properly report such gain or loss on your Wisconsin return, you must first remove all gain or loss included in your federal adjusted gross income. This is done by filling in line 2a or 2b and/or line 3a or 3b. Then fill in the revised gain or loss on line 2c and/or line 3c. Attach a revised federal Schedule D, Form 4684, or Form 4797 marked "Revised for Wisconsin purposes" to Form 1 or Form 1NPR.

Do not complete lines 2 and 3 if you did not make Schedule I adjustments in the current year or a prior year for the property you sold or otherwise disposed of during 1996.

5. Complete line 5 to make all other adjustments needed to convert 1996 federal adjusted gross income to the amount allowable for Wisconsin. See the listing under Section A of **ITEMS REQUIRING ADJUSTMENT**.

When an adjustment is made on line 2, 3, or 5, this may affect other amounts which must then also be adjusted. For example, the amount of social security includable in federal adjusted gross income may be affected when an adjustment is made to an income item. The adjustment to social security includable in federal adjusted gross income should be reported on line 5.

When completing line 5, if you are adjusting an expense item (e.g., depreciation or amounts claimed as Adjustments to Income on lines 23a through 29 of federal Form 1040), fill in the amounts in Col. I and Col. II as negative numbers. Put parentheses around the amounts to show negative numbers.

If you are adjusting an income item, fill in the amounts in Col. I and Col. II as positive numbers.

Complete Col. III as follows:

- If the amounts in Col. I and Col. II are positive numbers and the amount in Col. II is larger than the amount in Col. I, subtract Col. I from Col. II. Fill in the difference in Col. III.
- If the amounts in Col. I and Col. II are positive numbers and the amount in Col. I is larger than the amount in Col. II, subtract Col. II from Col. I. Fill in the difference as a negative number in Col. III.
- If the amounts in Col. I and Col. II are negative numbers and the amount in Col. II is larger than the amount in Col. I, subtract Col. I from Col. II. Fill in the difference as a negative number in Col. III. When figuring which amount is larger, treat both amounts as if they were positive numbers.
- If the amounts in Col. I and Col. II are negative numbers and the amount in Col. I is larger than the amount in Col. II, subtract Col. II from Col. I. Fill in the difference as a positive number in Col. III. When figuring which amount is larger, treat both amounts as if they were positive numbers.

6. The amount on line 6 is your recomputed federal adjusted gross income based on the Internal Revenue Code in effect for Wisconsin for 1996. This amount is the starting point for determining Wisconsin taxable income on Form 1.

INSTRUCTIONS FOR PART II

7. Whenever federal adjusted gross income has been increased or decreased in Part I of Schedule I, itemized deductions which are computed using federal adjusted gross income (for example, medical expenses, charitable contributions, and job and miscellaneous expenses subject to the 2% of federal adjusted gross income limitation) may require adjustment. The deductible amounts of any such items used to compute the Wisconsin itemized deduction credit must be determined by using the federal adjusted gross income computed on line 6 of Part I.

See the listing under Section B of **ITEMS REQUIRING ADJUSTMENT** for other itemized deductions that require adjustment.

ITEMS REQUIRING ADJUSTMENT

Following are brief explanations of differences between federal and Wisconsin law which were known at the time this form was printed.

All of these differences result from the federal Small Business and Job Protection Act of 1996 (SBJPA) which was enacted into law on August 20, 1996, and the Health Insurance Portability and Accountability Act of 1996 (HIPAA) which was enacted into law on August 21, 1996.

The "Federal" explanation indicates how an item is to be treated for federal income tax purposes as of December 31, 1996. The "Wisconsin" explanation indicates how the item is to be treated for Wisconsin purposes under the Internal Revenue Code enacted as of December 31, 1995.

If you need additional information regarding these items, contact any Wisconsin Department of Revenue office.

A. ITEMS AFFECTING THE COMPUTATION OF FEDERAL ADJUSTED GROSS INCOME

1. Business Use of a Residence

- (a) Federal - A deduction is allowed for business use of a residence for expenses allocable to space used to store product samples, in addition to the space used to store inventory. (SBJPA, Section 1113)
- (b) Wisconsin - A deduction is not allowed for business use of a residence for expenses allocable to space used to store product samples.

2. Involuntary Conversions

- (a) Federal - Tangible property acquired and held for productive use in a business is treated as similar or related in service or use to property that (1) was held for investment or productive use in a business and (2) was involuntarily converted as a result of a Presidentially declared disaster. (SBJPA, Section 1119)
- (b) Wisconsin - Whether property is involuntarily converted to property that is similar or related in service or use is determined under the provisions of the Internal Revenue Code as amended to December 31, 1995.

3. Abandonment of Lessor Improvements at Termination of Lease

- (a) Federal - A lessor that disposed of a leasehold improvement which was made by the lessor for the lessee of the property may take the adjusted basis of the improvements into account for purposes of determining gain or loss if the improvement is irrevocably disposed of or abandoned by the lessee at lease termination. This applies to leasehold improvements disposed of after June 12, 1996. (SBJPA, Section 1121)
- (b) Wisconsin - Gain or loss on leasehold improvements is determined under the provisions of the Internal Revenue Code as amended to December 31, 1995.

4. Housing Provided to Employees By Academic Health Centers

- (a) Federal - The value of campus lodging furnished to employees by educational institutions is excludable from the employee's gross income if an adequate rental is charged. An "educational institution" includes (1) cer-

tain medical research institutions that engage in basic and clinical research, have a regular faculty, and teach a curriculum in basic and clinical research, and (2) university systems organized under state law composed of public educational institutions. (SBJPA, Section 1123)

- (b) Wisconsin - For purposes of the exclusion for the value of campus lodging, "educational institution" is defined as an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on.

5. Employer - Provided Educational Assistance

- (a) Federal - Up to \$5,250 of benefits received from an employer's educational assistance plan may be excluded from an employee's taxable income. The exclusion for graduate courses does not apply to courses beginning after June 30, 1996. (SBJPA, Section 1202)
- (b) Wisconsin - Benefits an employee receives from an employer-provided educational assistance plan must be included in the employee's taxable income. (**Exception:** If the educational courses are required by the employer or are job-related and the employer either pays the expenses directly to the educational organization or reimburses the expenses after a full accounting by the employee, the amount need not be included in income.)

6. Adjustments to Basis of Inherited S Corporation Stock to Reflect Certain Items of Income

- (a) Federal - For deaths occurring after August 20, 1996, a person acquiring stock in an S corporation from a decedent treats as income in respect of a decedent the pro rata share of any item of income of the corporation that would have been income in respect of a decedent if that item had been acquired directly from the decedent. The stepped-up basis in the stock in an S corporation acquired from a decedent is reduced to the extent that the value of the stock is attributable to items consisting of income in respect of a decedent. (SBJPA, Section 1313)
- (b) Wisconsin - The treatment of inherited S corporation stock is determined under the provisions of the Internal Revenue Code as amended to December 31, 1995.

7. \$5,000 Death Benefit Exclusion Repealed

- (a) Federal - Effective with respect to decedents dying after August 20, 1996, the \$5,000 exclusion for employer-provided death benefits is repealed. (SBJPA, Section 1402)
- (b) Wisconsin - Beneficiaries may exclude from income up to \$5,000 of employer-provided death benefits.

8. Simplified Method for Taxing Annuity Distributions Under Certain Employer Plans

- (a) Federal - The portion of each annuity payment that represents a return of basis is equal to the employee's basis as of the annuity starting date divided by the number of anticipated payments. This method is effective for annuity payments beginning 90 days after August 20, 1996. (SBJPA, Section 1403)
- (b) Wisconsin - The portion of each annuity payment that represents a return of basis is determined using the General Rule or the Simplified General Rule provisions

of the Internal Revenue Code as amended to December 31, 1995.

9. Punitive Damages and Damages Not Attributable to Physical Injuries or Sickness

(a) Federal - Punitive damages received on account of personal injury or sickness are generally not excludable from gross income. The exclusion from gross income applies only to damages received on account of a physical injury or physical sickness. Emotional distress is not considered a physical injury or physical sickness. However, damages received based on a claim of emotional distress that is attributable to a physical injury or physical sickness are excludable, limited to the amount paid for medical care attributable to emotional distress. These provisions are generally effective for amounts received after August 20, 1996. (SBJPA, Section 1605)

(b) Wisconsin - The taxable status of punitive damages is determined under the provisions of the Internal Revenue Code as amended to December 31, 1995.

10. Interest on Loans With Respect to Company-Owned Life Insurance

(a) Federal - No deduction is allowed for interest paid or accrued on any indebtedness with respect to one or more life insurance policies or annuity or endowment contracts owned by the taxpayer covering the life of any individual who is (1) an officer or employee of, or (2) financially interested in, any trade or business carried on by the taxpayer, regardless of the total amount of debt. An exception is provided for certain "key persons." (HIPAA, Section 501)

(b) Wisconsin - No deduction is allowed for interest paid or accrued on any indebtedness with respect to one or more life insurance policies owned by the taxpayer covering the life of any individual who is (1) an officer or employee of, or (2) financially interested in, any trade or business carried on by the taxpayer to the extent the aggregate amount of such indebtedness exceeds \$50,000.

11. Gain on the Disposition of a Passive Activity

(a) Federal - Gain from the disposition of a passive activity first offsets any loss from the activity for the tax year of disposition (including losses carried over from earlier years). The balance of the loss is then applied first against any net income or gain from other passive activities, and then against nonpassive income. (SBJPA, Section 1704(e)(1))

(b) Wisconsin - The treatment of gain from the disposition of a passive activity is determined under the provisions of the Internal Revenue Code as amended to December 31, 1995.

12. Distributions From Qualified State Tuition Programs

(a) Federal - Amounts distributed from a qualified state tuition program or educational benefits provided are included in the beneficiary's gross income to the extent the amount or the value of the educational benefits exceeds contributions made on behalf of the beneficiary. Amounts distributed to a contributor are included in the contributor's gross income to the extent those amounts exceed contributions. (SBJPA, Section 1806(a))

(b) Wisconsin - The treatment of distributions is determined under the provisions of the Internal Revenue Code as amended to December 31, 1995.

13. Inbound Foreign Grantor Trusts

(a) Federal - Effective August 20, 1996, grantor trust rules generally apply only to the extent that they result in amounts being currently taken into account in computing the income of a U.S. citizen, resident or domestic corporation. If a foreign person would be treated as the owner of any portion of a trust and the trust has a U.S. person as a beneficiary, the beneficiary is treated as the grantor of that portion to the extent he/she has made (directly or indirectly) transfers of property (other than sales for full and adequate consideration) to the foreign person. Any amount paid to a U.S. person, where the amount was derived (directly or indirectly) from a foreign trust of which the payor is not the grantor, is treated as if paid by the foreign trust directly to the U.S. person. (SBJPA, Section 1904(a), (b), and (c))

(b) Wisconsin - The treatment of foreign grantor trusts is determined under the provisions of the Internal Revenue Code as amended to December 31, 1995.

14. Foreign Nongrantor Trust Loans

(a) Federal - The full amount of a loan of cash or marketable securities made after September 19, 1995, by a foreign nongrantor trust to a U.S. person who is a grantor or a U.S. beneficiary or a U.S. related person is treated as distributed to the grantor or beneficiary. (SBJPA, Section 1906(d)(3))

(b) Wisconsin - The principal of a loan made by a foreign nongrantor trust to one of its beneficiaries generally is not taxable as income to the beneficiary.

15. Outbound Foreign Grantor Trusts

(a) Federal - A U.S. person who transfers property to a foreign trust generally is treated as the owner of the portion of the trust comprising that property for any tax year in which there is a U.S. beneficiary of any portion of the trust. This generally does not apply to transfers by reason of death or to sales or exchanges of property at fair market value. A nonresident alien individual who transfers property, directly or indirectly, to a foreign trust and has a "residency starting date" within 5 years after the transfer generally is treated as making a transfer to the foreign trust on the residency starting date. If a U.S. person transfers property to a domestic trust that later becomes a foreign trust while the transferor is alive, that person is treated as making a transfer to the trust on the date the trust becomes a foreign trust. (SBJPA, Section 1903)

(b) Wisconsin - A U.S. person who transfers property to a foreign trust generally is treated as the owner of the portion of the trust comprising that property for any tax year in which there is a U.S. beneficiary of any portion of the trust. This generally does not apply to transfers by reason of death, to sales or exchanges of property at fair market value where gain is recognized to the transferor, or to transfers made before the transferor became a U.S. person.

16. Fishing Boat Crew Members

- (a) Federal - A fishing boat crew member is treated as self-employed if the boat's crew size averaged fewer than ten individuals for four preceding calendar quarters. A crew member may receive certain cash payments during a voyage in addition to a share of the catch without losing the self-employed status as to that voyage. (SBJPA, Section 1116(a)(1)(A) and (B))
- (b) Wisconsin - A fishing boat crew member is treated as self-employed if the operating crew of the boat normally consists of fewer than ten individuals and the individual does not receive any remuneration other than a share of the catch based on the total catch.

17. Newspaper Distributors and Carriers

- (a) Federal - A direct seller (i.e., independent contractor) includes a person engaged in the trade or business of the delivery or distribution of newspapers or shopping news if (1) substantially all the remuneration for the person's services is directly related to sales or other output rather than to the number of hours worked, and (2) the services are performed under a written contract which provides that the person will not be treated as an employee for federal tax purposes. (SBJPA, Section 1118(a))
- (b) Wisconsin - The treatment of newspaper distributors and carriers is determined under the provisions of the Internal Revenue Code as amended to December 31, 1995.

DIFFERENCES IN WISCONSIN - FEDERAL LAW WHICH AFFECT ONLY FISCAL FILERS

The following provisions of the Internal Revenue Code also do not apply for Wisconsin for 1996. These provisions only affect returns filed on a fiscal year basis. If you need additional information regarding any of these items, contact any Department of Revenue office.

1. Exclusion from gross income for energy conservation subsidies limited to those subsidies provided by public utilities for energy conservation measures with respect to dwelling units. (SBJPA, Section 1617, effective for amounts received after December 31, 1996)
2. Exclusion for accelerated death benefits received under a life insurance contract where the insured is terminally or chronically ill and for the amount received from a viatical settlement provider from the sale or assignment of any portion of the death benefit under a life insurance contract on the life of a terminally or chronically ill individual. (HIPAA, Section 331, effective for amounts received after December 31, 1996)
3. Treatment of length of service awards to volunteers for fire fighting and prevention, emergency medical, and ambulance service. (SBJPA, Section 1458, effective for awards after December 31, 1996)
4. Exclusion for up to \$175 per day of qualified long-term care insurance benefits (HIPAA, Section 321, effective for contracts issued after December 31, 1996)

B. ITEMS AFFECTING THE COMPUTATION OF ITEMIZED DEDUCTIONS

1. Business Use of a Residence

- (a) Federal - A deduction is allowed for business use of a residence for expenses allocable to space used to store product samples, in addition to the space used to store inventory. (SBJPA, Section 1113)
- (b) Wisconsin - A deduction is not allowed for business use of a residence for expenses allocable to space used to store product samples.

2. Contributions of Stock to Private Foundations

- (a) Federal - A deduction is allowed for the fair market value of publicly-traded stock contributed to a private foundation. This applies to contributions of stock made during the period beginning July 1, 1996, and ending May 31, 1997. (SBJPA, Section 1206)
- (b) Wisconsin - The deduction for gifts of publicly-traded stock is limited to the fair market value on the date of contribution less the potential long-term (or short-term) capital gain.