

# 1997

## Combined Wisconsin Individual and Fiduciary Income Tax Return For Nonresident Partners

### Form 1CNP Instructions

#### New for 1997 . . .

- **Computation of nonresidents income tax changed**  
For taxable years beginning in 1997, the computation of a nonresident's Wisconsin income tax has changed. See the tax computation worksheet on page 5.

#### Important . . .

- **Extensions of time to file**  
Any extension of time allowed by the Internal Revenue Service for filing the partnership's federal return automatically extends the time to file Form 1CNP to the same extended due date provided a copy of the federal extension is attached to the Form 1CNP filed. See page 1.
- **Temporary recycling surcharge**  
The temporary recycling surcharge applies to partners who receive at least \$4,000 of guaranteed payments from the partnership. Report on Form 1CNP a nonresident partner's surcharge on guaranteed payments received from the partnership. The remainder of the partnership income is subject to the surcharge at the partnership level.
- **Composite Estimated Tax Vouchers**  
Use the Wisconsin Composite Estimated Tax Vouchers, Forms CN-ES, included in this booklet to make estimated tax and temporary recycling surcharge payments for nonresident partners who will be participating in a combined return, Form 1CNP, for 1998.

#### For More Information . . .

- **Wisconsin Tax Bulletin**  
This quarterly bulletin published by the Department of Revenue provides information about new Wisconsin tax laws, court decisions, interpretations of law, etc. Subscriptions cost \$7 per year.
- **Topical and Court Case Index**  
This index gives references to Wisconsin statutes, administrative rules, *Wisconsin Tax Bulletin* tax releases and private letter rulings, publications, and court decisions. The index is published in December, with an addendum provided in May. The annual cost is \$18, plus sales tax.

To order the bulletin or index, send a check made payable to "Document Sales" to the Wisconsin Department of Administration, P.O. Box 7840, Madison, WI 53707-7840.

# Instructions for Form 1CNP

## General Instructions

### Who May File

A partnership, including a limited liability company (LLC) classified as a partnership for federal income tax purposes, that derives income from business transacted, services performed, or property located in Wisconsin and has two or more nonresident partners who derive no taxable income or deductible loss from Wisconsin other than their distributive shares of the Wisconsin partnership income or loss may file a combined return on behalf of those partners. The partnership files this combined return on Form 1CNP. The partnership and partners must agree to the rules prescribed by the Wisconsin Department of Revenue as set forth below in order to file this combined return.

Nonresident partners with other sources of Wisconsin income or loss and all full-year and part-year resident partners may not file on Form 1CNP. Instead, they must file their own Wisconsin income tax returns. Full-year resident individuals file Wisconsin Form 1, part-year resident and nonresident individuals file Wisconsin Form 1NPR, and estates and trusts file Wisconsin Form 2 to report their own income.

Nonresidents of Wisconsin who had Wisconsin gross income (or combined gross income of both spouses) of \$2,000 or more during 1997 must file a Wisconsin income tax return (Form 1NPR or Form 1CNP). Gross income means all income (before deducting expenses) reportable to Wisconsin which is received in the form of money, property, or services. Gross income includes a distributive share of partnership gross income as reported on Wisconsin Schedule 3K-1, line 21, column d. If gross income is less than \$2,000, a Wisconsin income tax return doesn't have to be filed.

### Who May Not Participate in Combined Return

A partner may not participate in this combined return in any of the following cases:

- The partner is an estate or trust that has distributable income in the current year.
- The partner is a partnership or corporation.
- The partner files his or her individual or fiduciary income tax return on a fiscal year basis.
- The partner is a resident of Wisconsin during any part of 1997.
- The partner derives taxable income from Wisconsin in 1997 other than his or her distributive share of partnership income or loss from one partnership.

### What Income Is Reportable on Form 1CNP

Each qualifying and participating partner's distributive share of partnership income for the partnership's taxable years ending between January 31, 1997, and December 31, 1997, is reported on a 1997 Form 1CNP. The combined return replaces the separate 1997 Wisconsin individual and fiduciary income tax return that otherwise would be filed by each of the qualifying and participating nonresident partners.

### When to File

Form 1CNP is due April 15, 1998.

### Extensions of Time to File

- Any extension allowed by the Internal Revenue Service for filing the partnership's federal return automatically extends the due date of Form 1CNP to the same extended due date.
- If the partnership doesn't apply for a federal extension, but needs additional time to file the Wisconsin return, you may obtain an extension available to partnerships under federal law. To receive the Wisconsin extension, you must attach to your Wisconsin return a completed copy of the appropriate federal extension application form or a statement explaining which federal extension provision you are using.
- Extensions to file allowed by the Internal Revenue Service to individual partners will also give Wisconsin extensions to those particular partners provided the federal extensions are attached to the Wisconsin return. Other partners who don't have an extension will be subject to late filing fees and delinquent interest if Form 1CNP is filed after April 15, 1998.

### Where to File

Mail Form 1CNP to the Wisconsin Department of Revenue, P.O. Box 8912, Madison, WI 53708-8912.

### Estimated Tax and Temporary Recycling Surcharge Payments

If a partner will owe tax (including the temporary recycling surcharge) of \$200 or more on his or her 1998 Wisconsin income, estimated tax payments must be made to avoid an interest charge. The partnership may make estimated tax payments on behalf of any or all of the partners who may participate in the combined return. The partnership must use the Forms CN-ES, Wisconsin Composite Estimated Tax Voucher, included in this booklet. Attach a schedule to Form CN-ES showing the name, address, social security number (federal employer identification number for trusts), and estimated tax payment to be credited to each partner's account.

Send all estimated tax payments for partners who will be participating in a combined return to the Wisconsin Department of Revenue, P.O. Box 8912, Madison, WI 53708-8912.

**Note:** Do not combine payments for residents and nonresidents. Use Form CN-ES only for nonresident partners who will file on Form 1CNP. Full-year residents, part-year residents, and nonresidents who file on Form 1NPR must make their estimated tax payments individually using Form 1-ES.

### **Internal Revenue Service Adjustments and Amended Returns**

Wisconsin law requires the following information to be provided to the Department of Revenue:

- Adjustments made to a partner's federal tax return by the Internal Revenue Service that affect the Wisconsin net tax payable, the amount of a Wisconsin credit, a Wisconsin net operating loss carryforward, or a Wisconsin capital loss carryforward must be reported within 90 days after they become final.
- Changes made on a partner's amended return filed with the Internal Revenue Service that affect the Wisconsin net tax payable, the amount of a Wisconsin credit, a Wisconsin net operating loss carryforward, or a Wisconsin capital loss carryforward must be reported on an amended Wisconsin return within 90 days after filing the amended federal return.

Either the partnership or the partner must report this information as follows:

- The partnership must file an amended Form 1CNP to report federal adjustments or amendments to a partner's federal return that affect the amount of the partner's income or tax reported on the partnership's original Form 1CNP.

To amend Form 1CNP, file another Form 1CNP, clearly marked "AMENDED RETURN" at the top of the form. Attach to the amended return a copy of the final federal audit report if the amended return is being filed as a result of a federal audit. Otherwise, attach an explanation of the changes made and the reasons for the changes. Send the amended return to the Wisconsin Department of Revenue, P.O. Box 8991, Madison, WI 53708-8991. Don't attach it to the return for the current year.

- The partner must file an amended Form 1NPR to report federal adjustments or amendments to the partner's federal return that affect Wisconsin items of income, loss, or credit other than the partnership income or loss reported on the partnership's Form 1CNP.

To amend Form 1NPR, file a Form 1NPR clearly marked "AMENDED RETURN" at the top of the form. Include any partnership income or loss previously reported on Form 1CNP. Attach to the amended return a copy of the final federal audit report if the amended return is being filed as a result of a federal audit. Otherwise, attach an explanation of the changes made and the reasons for the changes. If claiming credit for taxes previously paid on your behalf on Form 1CNP, include a statement indicating the corporation's name and federal employer identification number and amount of tax paid. Send the amended return to the Wisconsin Department of Revenue using the address specified in the Form 1NPR instructions.

### **Refunds, Assessments, and Correspondence**

By filing Form 1CNP, the signing partner declares that the partnership has a power of attorney or other written authorization from each qualifying and participating partner to file a combined return. The Department of Revenue will mail refund checks, assessments, and all correspondence to the partnership at the address indicated on Form 1CNP. If an issue cannot be resolved between the partnership and the department, the partnership must agree to be responsible for the payment of any additional tax due, interest, and penalties, as finally determined. In unusual circumstances, the department may contact the individual partners.

### **Additional Forms or Information**

If you need additional forms, call (608) 266-1961 or write to the Forms Request Office, Wisconsin Department of Revenue, P.O. Box 8903, Madison, WI 53708-8903. To receive forms or publications by FAX, use your fax telephone to call the department's Fax-A-Form Retrieval System at (608) 261-6229. You may also download forms from the department's Internet website at <http://www.dor.state.wi.us>.

If you need help with the combined return, write to the Wisconsin Department of Revenue, P.O. Box 8933, Madison, WI 53708-8933 or call (608) 266-5464.

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### **Wisconsin Taxation of Partnership Income of Nonresidents of Wisconsin**

A nonresident partner's portion of the partnership's income attributable to a business located in Wisconsin, services performed in Wisconsin, or real or tangible personal property located in Wisconsin is taxable by Wisconsin. Business income is taxable whether or not the individual partner conducts business in Wisconsin. However, partnership income derived from personal services, including professional services, is taxable to a nonresident partner only if that nonresident partner personally performs services in Wisconsin. The amount of personal service income attributable to the nonresident partner's services performed in Wisconsin is taxable.

**Example 1.** Two nonresident individuals are partners of a partnership that does business only in Wisconsin. Both nonresidents are taxed on their entire share of the partnership income for Wisconsin income tax purposes.

**Example 2.** Two nonresident individuals and one Wisconsin resident are equal partners in a partnership that does business in Wisconsin and Illinois. The partnership derives 40% of its income from business activities in Wisconsin and 60% from business activities in Illinois. The Wisconsin resident partner operates the Wisconsin business. The nonresident partners operate the Illinois business. The nonresident partners are taxed on two-thirds (one-third each) of the 40% of the partnership income attributable to business activities in Wisconsin.

**Example 3.** A nonresident is a limited partner, with a 1% interest in partnership profits, of a partnership that derives income from real estate located in Wisconsin and in other states. The nonresident limited partner is taxed on 1% of the partnership income attributable to the real estate located in Wisconsin.

**Example 4.** A nonresident is a partner, with a 10% interest in partnership profits, of a certified public accounting firm that operates in and outside Wisconsin. One-fourth of the partnership's income is attributable to professional services performed in Wisconsin and three-fourths is attributable to professional services performed in other states. The nonresident partner doesn't personally perform any services in Wisconsin. The nonresident isn't subject to Wisconsin income tax on his or her proportionate share of the income earned in Wisconsin.

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## Line-by-Line Instructions

Complete federal Form 1065 and Wisconsin Form 3, including all supporting schedules, before starting Form 1CNP. Complete page 2 of Form 1CNP first; then enter the totals from Schedule 2 on Schedule 1.

### Schedule 1

■ **Line 1. Wisconsin Partnership Income (Loss) of Qualifying and Participating Nonresident Partners** — Enter the total income (loss) from Schedule 2, column E.

■ **Line 2. Tax** — Enter the total tax from Schedule 2, column H.

■ **Line 3. Alternative Minimum Tax** — Enter the total alternative minimum tax from Schedule 2, column I.

■ **Line 4. Temporary Recycling Surcharge** — Enter the total temporary recycling surcharge from Schedule 2, column J.

■ **Line 5. Total Tax and Temporary Recycling Surcharge** — Add the amounts on lines 2, 3, and 4 and enter the total.

■ **Line 6. Estimated Tax Payments** — Enter the total estimated tax payments from Schedule 2, column K.

■ **Line 7 or 8. Balance of Tax Due or Overpayment** — Complete line 7 or 8 to determine the amount you owe or your overpayment.

If you owe an additional amount, you may pay by check or money order made payable to the Wisconsin Department of Revenue. Write the partnership's federal employer identification number on the check and attach it to the front of Form 1CNP.

■ **Line 9. Amount to Apply to 1998 Estimated Tax** — Enter the amount of any overpayment on line 8 you want to apply to the partners' 1998 estimated tax. Attach to Form 1CNP a schedule showing each partner's name, identifying number, and share of the amount on line 9. The balance will be refunded.

■ **Signatures** — A general partner of the partnership must sign and date Form 1CNP at the bottom of page 1. If the return is prepared by someone other than an employee of the partnership, the preparer's signature is also required.

■ **Attachments** — Attach a copy of any application for an extension of time to file the return. Don't attach federal Form 1065, Wisconsin Form 3, the federal Schedules K-1, or the Wisconsin Schedules 3K-1.

### Schedule 2

■ **Columns A and B. Name and Address and Identifying Number** — Enter the information requested concerning the nonresident partners who qualify and are participating in this combined return. Complete names, addresses, and identifying numbers are required. For individual and estate partners, enter the social security number in column B. For trust partners, enter the federal employer identification number. Attach a separate schedule, if necessary.

■ **Column C. Partner's Share of Wisconsin Partnership Income (Loss)** — Using the amounts entered on Schedule 3K-1, column d, compute each partner's Wisconsin income or loss to enter on Schedule 2, column C. Don't include guaranteed payments in column C; instead, show these payments in column D.

Show income as a positive number. Show losses by putting the amount in parentheses.

The net income may not agree with the total of the amounts on Schedule 3K-1, column d, for the following reasons:

- Only those separately stated deductions of the partnership (Schedule 3K-1, lines 8 through 11 and 13a) that are deductible by the partners in computing federal adjusted gross income are allowed as deductions on Form 1CNP. Amounts that are deductible by the individual partners as itemized deductions (such as charitable contributions from Schedule 3K-1, line 8; deductions relating to portfolio income (loss) from Schedule 3K-1, line 10; and other miscellaneous itemized deductions from Schedule 3K-1, line 11) aren't deductible on Form 1CNP. Use the Wisconsin apportionment percentage to allocate allowable deductions to Wisconsin.
- Passive activity losses may be limited as provided in the Internal Revenue Code.
- 60% of the net capital gain realized on assets held more than 1 year is excludable from income.
- The net capital loss deduction is limited to \$500.

If any of these differences apply, attach a schedule to Form 1CNP showing the computation of net income.

Estates and trusts may be allowed certain deductions used in computing adjusted gross income.

If the partner is claiming a net operating loss carryforward, attach a schedule showing the computation of the carryforward.

**Caution:** An individual or fiduciary generally must have a federal net operating loss in order to have a Wisconsin net operating loss. For exceptions, see the tax release titled "Wisconsin Net Operating Loss When There Is No Federal Net Operating Loss" in *Wisconsin Tax Bulletin 70* (January 1991, page 19).

■ **Column D. Guaranteed Payments** — Enter each partner's guaranteed payments attributable to Wisconsin from Schedule 3K-1, line 5, column d.

■ **Column E. Total Income (Loss)** — Add the amounts in columns C and D for each partner.

■ **Column F. Federal Adjusted Gross Income** — For each partner who is an individual, enter the partner's federal adjusted gross income from federal Form 1040 on Schedule 2, column F. **Note:** If this information is not available, you must compute the partner's Wisconsin tax using the alternate method described in the instructions below for Schedule 2, column H.

■ **Column G. Filing Status** — Enter the appropriate designation for each partner's filing status in 1997: S for single or an estate or trust, H for head of household, MFJ

for married filing a joint return, and MFS for married filing a separate return.

**Note:** To use the joint return filing status, the partner's spouse cannot have any income taxable by Wisconsin other than income from this same partnership. If both spouses are partners and they wish to compute their tax jointly, combine their net incomes for purposes of determining the tax to enter in column G.

■ **Column H. Tax** — If the partner's federal adjusted gross income has been entered on Schedule 2, column F, figure the tax on the income in column E by using the tax computation worksheet for individuals on page 5. Don't use the tax tables in the Form WI-Z, 1A, or 1 booklets because a standard deduction is built into those tables. No standard deduction or itemized deductions will be allowed for purposes of this combined filing.

For estates and trusts, use the tax rate schedule below.

1997 Tax Rate Schedule — Estates and Trusts				
If column E is:			The 1997 gross tax is:	
over —		but not over —		of the amount over —
\$ 0		\$ 7,500	4.9%	\$ 0
7,500		15,000	\$367.50 + 6.55%	7,500
15,000	or over		\$858.75 + 6.93%	15,000

**Alternate Method:** If the partner's federal adjusted gross income is unknown, multiply the Wisconsin income in column E by 6.93% (0.0693) and enter the result on Schedule 2, column H.

■ **Column I. Alternative Minimum Tax** — A partner may be subject to the Wisconsin alternative minimum tax if the partnership has adjustments and tax preference items that are attributable to Wisconsin (Schedule 3K-1, lines 14a through 14e, column d).

Complete a separate Wisconsin Schedule MT for each partner who is subject to the alternative minimum tax and attach a copy to Form 1CNP. Enter the amount of alternative minimum tax in column I.

■ **Column J. Temporary Recycling Surcharge** — A partner acting in the capacity of a partner who receives at least \$4,000 of guaranteed payments for federal income tax purposes generally is subject to the temporary recycling surcharge. The surcharge is the greater of \$25 or 0.4345% of the guaranteed payments attributable to Wisconsin, but not more than \$9,800. The surcharge doesn't apply to a limited partner's guaranteed payments for the use of capital.

For additional information about the temporary recycling surcharge, refer to the department's Publication 400, *Wisconsin's Temporary Recycling Surcharge*.

■ **Column K. Estimated Tax Payments** — Enter any estimated tax and temporary recycling surcharge payments made by the partners or by the partnership on each partner's behalf.

**Amended Return:** If this is an amended return, enter the tax and temporary recycling surcharge previously paid.

■ **Column L. Balance Due or Overpayment** — Compute the balance due or overpayment for each partner.

<b>Tax Computation Worksheet — Individuals</b>		
1	If your filing status is: <ul style="list-style-type: none"> <li>• Single or head of household, fill in \$7,500</li> <li>• Married filing joint return, fill in \$10,000</li> <li>• Married filing separate return, fill in \$5,000 .....</li> </ul>	
2	Divide the amount from Schedule 2, column E, by the amount from Schedule 2, column F, and enter the ratio .....	
3	Multiply line 1 by line 2 .....	
4	Fill in the amount from Schedule 2, column E .....	
5	Fill in the smaller of line 3 or line 4 .....	
6	Multiply line 5 by 4.9% (0.049) (round to the nearest cent) ...	
7	Subtract line 5 from line 4. If the result is zero, skip lines 8 through 11 and go to line 12 ..	
8	Fill in the smaller of line 3 or line 7 .....	
9	Multiply line 8 by 6.55% (0.0655) (round to the nearest cent) ...	
10	Subtract line 8 from line 7. If the result is zero, skip line 11 and go to line 12 .....	
11	Multiply line 10 by 6.93% (0.0693) (round to the nearest cent) .....	
12	Add lines 6, 9, and 11. Fill in the total here and on Schedule 2, column H .....	