INSTRUCTIONS FOR COMPLETING WISCONSIN SCHEDULE I – 2001

INTRODUCTION – Generally, the Wisconsin Statutes require that the computation of taxable income on the 2001 Wisconsin income tax return is to be based on the Internal Revenue Code enacted as of December 31, 1999. Changes to the Internal Revenue Code enacted after December 31, 1999, do not apply for Wisconsin income tax purposes.

Wisconsin law also provides that the following provision of federal law does not apply for Wisconsin purposes (even though this provision was enacted into federal law prior to December 31, 1999):

- The exclusion for 50% of the gain from the sale or exchange of qualified small business stock issued after August 10, 1993, and held for more than five years.

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 2001, 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 2001 (for example, 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 2001.

It also may be necessary to prepare a 2001 Schedule I to adjust the amount of gain or loss reportable from sales of certain assets during 2001. 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 2001. 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 2001 federal adjusted gross income from line 33 of your federal Form 1040.

2 & 3. If you sold or otherwise disposed of certain property during 2001, 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 2001.

5. Complete line 5 to make all other adjustments needed to convert 2001 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 (for example, depreciation or amounts claimed as Adjustments to Income on lines 23 through 31a 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 2001. 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 and charitable contributions) 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 (November 20, 2001).

The "Federal" explanation indicates how an item is to be treated for federal income tax purposes as of December 31, 2001. The "Wisconsin" explanation indicates how the item is to be treated for Wisconsin purposes under the Internal Revenue Code enacted as of December 31, 1999.

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

CAUTION At the time these instructions were printed, Congress was considering further legislation, and that further legislation could affect the taxable year 2001. Except for changes relating to depreciation and amortization, federal law changes enacted after December 31, 1999, do not apply for Wisconsin purposes for 2001 unless retroactively adopted by the Wisconsin Legislature.

If federal law changes are enacted which affect 2001 tax returns, you may obtain information on the Wisconsin treatment of such changes from any Wisconsin Department of Revenue office.

A. ITEMS AFFECTING THE COMPUTATION OF FEDERAL ADJUSTED GROSS INCOME

1. Small Business Stock

(a) Federal – An exclusion is allowed for 50% of the gain from the sale or exchange of qualified small business stock issued after August 10, 1993, and held for more than five years.

(b) Wisconsin – Gain from the sale or exchange of qualified small business stock is included in gross income.

2. Treatment of Extraterritorial Income

(a) Federal – An exclusion from gross income is allowed for extraterritorial income that is qualifying foreign trade income. (Public Law 106-519)

(b) Wisconsin – The treatment of extraterritorial income is determined under the provisions of the Internal Revenue Code as amended to December 31, 1999.

3. Expensing of Environmental Remediation Costs

(a) Federal – The expensing of environmental remediation costs is no longer limited to targeted areas. (Public Law 106-554)

(b) Wisconsin – The expensing of environmental remediation costs is limited to qualified expenses at a qualified contaminated site within a targeted area.

4. Employer-Provided Educational Assistance

(a) Federal – For courses that begin after December 31, 2001, up to $5,250 of benefits received from an employer's educational assistance plan may continue to be excluded from an employee's taxable income under the provisions of sec. 127 of the Internal Revenue Code. The exclusion also applies to expenses for graduate level courses that begin after December 31, 2001. (Public Law 107-16)

(b) Wisconsin – The exclusion available under sec. 127 of the Internal Revenue Code for employer-provided educational assistance does not apply to courses beginning after December 31, 2001, or to graduate level courses.

5. Defined Contribution Plans

(a) Federal – Any annuity contract described in sec. 403(b), IRC, for the benefit of a participant shall be treated as a defined contribution plan maintained by each employer with respect to which the participant has the required control. Any contribution to a simplified employee pension plan shall be treated as an employer contribution to a defined contribution plan. In the case of any annuity contract described in sec. 403(b), the amount of the contribution disqualified by reason of sec. 415(g) shall reduce the exclusion allowance. A plan may disregard the requirements regarding the exclusion allowance under sec. 403(b) that contributions to a defined benefit pension plan be treated as previously excluded amounts. (Public Law 107-16)

(b) Wisconsin – The treatment of benefits from a defined contribution plan is determined under the provisions of the Internal Revenue Code in effect on December 31, 1999.

6. Stock in S Corporation ESOP

(a) Federal – If there is a nonallocation year with respect to an ESOP maintained by an S corporation, the amount allocated in a prohibited allocation to an individual who is a disqualified person is treated as distributed to such individual. This applies to plan years ending after March 14, 2001, of an ESOP established after March 14, 2001, or an ESOP established on or before such date if employer securities held by the plan consist of stock in a corporation that was not an S corporation on that date. (Public Law 107-16)

(b) Wisconsin – The treatment of an S corporation ESOP is determined under the provisions of the Internal Revenue Code in effect on December 31, 1999.

7. Restitution Payments

(a) Federal – Restitution payments made to a person (or the person's heirs) who was persecuted on the basis of race, religion, physical or mental disability, or sexual orientation by Nazi Germany, any other Axis regime, or any other Nazi-controlled or Nazi-allied country are not included in gross income. (Public Law 107-16)

(b) Wisconsin – The treatment of restitution payments is determined under the provisions of the Internal Revenue Code in effect on December 31, 1999. (**Note** Although they must be included in federal adjusted gross income used as the starting point for calculating Wisconsin taxable income, restitution payments may subsequently be subtracted. See page 15 of the Form 1 instructions or page 17 of the Form 1NPR instructions.)

8. Loss Through Liability Assumption

(a) Federal – The basis of stock received in a tax-free incorporation must be reduced (but not below the stock's fair market value) by the amount of any liability that (1) is assumed in the exchange for such stock, and (2) did not otherwise reduce the transferor's basis of the stock by reason of the assumption. (Public Law 106-554)

(b) Wisconsin – The basis of stock received in a tax-free incorporation is determined under the provisions of the Internal Revenue Code as amended to December 31, 1999.

9. Treatment of Securities Futures Contracts

(a) Federal – Gain or loss from a securities futures contract (except dealer securities futures contracts) is generally treated the same as gain or loss from transactions in the underlying security, and such gain or loss takes on the same character as the property to which the contract relates has, or would have, in the hands of the taxpayer. Any capital gain or loss resulting from the sale or exchange of a securities futures contract to sell property generally will be short-term capital gain or loss. A securities futures contract will not be treated as a commodities futures contract. Gain or loss from a "dealer securities futures contract" is considered a "section 1256 contract" which requires it to be marked to market on the last day of the year. (Public Law 106-554)

(b) Wisconsin – The treatment of securities futures contracts is determined under the provisions of the Internal Revenue Code as amended to December 31, 1999.

10. Commercial Revitalization Deduction

(a) Federal – A taxpayer may elect to (1) deduct one-half of any qualified revitalization expenditures chargeable to capital account with respect to any qualified revitalization building for the taxable year in which the building is placed in service, or (2) deduct all such expenditures ratably over the 120-month period beginning with the month in which the building is placed in service. (Public Law 106-554)

(b) Wisconsin – The election related to qualified revitalization expenditures is not available for Wisconsin.

11. Nonrecognition of Gain on Rollover of Empowerment Zone Investments

(a) Federal – A taxpayer may elect to roll over capital gain from the sale or exchange of any qualified empowerment zone asset purchased after December 21, 2000, and held for more than one year where the taxpayer uses the proceeds to purchase other qualifying empowerment zone assets in the same zone within 60 days of the sale of the original zone asset. (Public Law 106-554)

(b) Wisconsin – The election to roll over capital gain from the sale or exchange of any qualified empowerment zone asset does not apply for Wisconsin.

12. Two-Year Extension of Availability of Medical Savings Accounts

(a) Federal – The medical savings account program is extended through 2002. (Public Law 106-554)

(b) Wisconsin – No contributions may be made to medical savings accounts except by or on behalf of individuals who made medical savings account contributions prior to 2001 and employees who are employed by a participating employer.

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 2001. 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. The removal of the 60-month limitation on the deduction for student loan interest and the increase in the modified adjusted gross income limitation. (Public Law 107-16, effective for taxable years ending after December 31, 2001)

2. The adjustment to the limitation on benefits from a defined benefit plan. (Public Law 107-16, effective for years ending after December 31, 2001)

3. The application of the rules for plan distributions pursuant to a qualified domestic relations order to a sec. 457 plan (deferred compensation plans of state and local governments and tax-exempt organizations). (Public Law 107-16, effective for transfers, distributions, and payments after December 31, 2001)

4. The rollover treatment of a distribution from a qualified cash or deferred arrangement that is made upon hardship of the employee. (Public Law 107-16, effective for distributions made after December 31, 2001)

5. The revision of rules relating to the rollover of eligible distributions from qualified retirement plans. (Public Law 107-16, effective for distributions after December 31, 2001)

6. Provision allowing distributions from secs. 401(k) plans, 403(b) annuities, and 457 plans to occur upon severance from employment rather than separation from service. (Public Law 107-16, effective for distributions after December 31, 2001)

7. The exclusion from gross income for a direct trustee-to-trustee transfer to a governmental defined benefit plan from a sec. 403(b) annuity or a sec. 457 plan. (Public Law 107-16, effective for transfers after December 31, 2001)

8. Provision allowing a plan, for purposes of the cash-out rule, to provide that the present value of a participant's nonforfeitable accrued benefit is determined without regard to the portion of such benefit that is attributable to rollover contributions. (Public Law 107-16, effective for distributions after December 31, 2001)

9. Provision allowing a renewal community business to be treated as an enterprise zone business for purposes of sec. 1397A of the Internal Revenue Code (IRC). This section allows an increase in expensing under sec. 179 of the IRC. (Public Law 106-554, effective for property acquired after December 31, 2001)

10. The easing of the inclusion-in-income rules for participants in sec. 457 plans. (Public Law 107-16, effective for distributions after December 31, 2001)

B. ITEMS AFFECTING THE COMPUTATION OF ITEMIZED DEDUCTIONS

No differences existed at the time of this printing.