INSTRUCTIONS FOR COMPLETING WISCONSIN SCHEDULE I – 2002

INTRODUCTION – Generally, the Wisconsin Statutes require that the computation of taxable income on the 2002 Wisconsin income tax return is to be based on the Internal Revenue Code enacted as of December 31, 1999. In addition, most provisions of the federal Community Renewal Tax Relief Act of 2000 (Public Law 106-554) and the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) apply for Wisconsin purposes. Changes made to the Internal Revenue Code in other public laws 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 2002, 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 2002 (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 2002.

It also may be necessary to prepare a 2002 Schedule I to adjust the amount of gain or loss reportable from sales of certain assets during 2002. 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 2002. 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 2002 federal adjusted gross income from line 35 of your federal Form 1040.

2 & 3. If you sold or otherwise disposed of certain property during 2002, 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 2002.

5. Complete line 5 to make all other adjustments needed to convert 2002 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 33a 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 2002. 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, 2002).

The “Federal” explanation indicates how an item is to be treated for federal income tax purposes as of December 31, 2002. The “Wisconsin” explanation indicates how the item is to be treated for Wisconsin purposes.

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 2002. If federal law changes are enacted which affect 2002 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. Increase in Section 179 Expensing for New York Liberty Zone Property

(a) Federal – The amount that may be expensed under sec. 179, IRC, is increased by the lesser of $35,000 or the cost of sec. 179 property which is qualified New York Liberty Zone property. The amount of New York Liberty Zone property taken into account is 50% of the cost thereof. (Public Law 107-147)

(b) Wisconsin – The amount of New York Liberty Zone property that may be expensed under sec. 179 is determined under the provisions of the Internal Revenue Code in effect on December 31, 1999.

5. Extension of Replacement Period for Involuntary Conversions

(a) Federal – The replacement period for property which is compulsorily or involuntarily converted as a result of the terrorist attacks on September 11, 2001, in the New York Liberty Zone is increased to five years. (Public Law 107-147)

(b) Wisconsin – The replacement period for property involuntarily converted is two years after the close of the first taxable year in which any part of the gain upon the conversion is realized (three years if the converted property is real property held for the productive use in a trade or business or for investment).

6. Discharge of Indebtedness Income of an S Corporation

(a) Federal – Income from the discharge of indebtedness of an S corporation that is excluded from the S corporation's income is not taken into account as an item of income by any shareholder and thus does not increase the basis of any shareholder's stock in the corporation. (Public Law 107-147)

(b) Wisconsin – The treatment of discharge of indebtedness income is determined under the provisions of the Internal Revenue Code in effect on December 31, 1999.

7. Foster Care Payments by Qualified Placement Agencies

(a) Federal – An exclusion from gross income is provided for qualified foster care payments. A "qualified foster care payment" means any payment made pursuant to a foster care program of a State or local government or a qualified foster care placement agency. A "qualified foster care individual" includes foster care individuals placed by a qualified foster care placement agency (regardless of the individual's age at the time of placement). (Public Law 107-147)

(b) Wisconsin – For purposes of the exclusion, a "qualified foster care payment" means any amount which is paid by a State or local government or by a tax-exempt placement agency. A qualified foster care individual is an individual living in a foster care family home in which the individual was placed by (1) an agency of the State or local government (regardless of the individual's age at the time of placement) or (2) a tax-exempt placement agency licensed by the State or local government (if such individual was under the age of 19 at the time of placement).

8. Deduction for Classroom Materials

(a) Federal – A deduction from gross income is allowed for up to $250 of expenses paid or incurred by an eligible educator in connection with books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment and other equipment, and supplementary materials used by the educator in the classroom. (Public Law 107-147)

(b) Wisconsin – The deduction for expenses of an educator in connection with books, supplies, computer equipment and other equipment, and supplementary materials used in the classroom is not allowed.

9. Deduction for Clean-Fuel Vehicles and Certain Refueling Property

(a) Federal – The phase-down of the deduction for qualified clean-fuel vehicle property and qualified clean-fuel vehicle refueling property will not apply for property placed in service in 2002. (Public Law 107-147)

(b) Wisconsin – For property placed in service in 2002, the deduction for clean-fuel vehicles and clean-fuel vehicle refueling property must be reduced by 25% as provided in the provisions of the Internal Revenue Code in effect on December 31, 1999.

10. Taxable Income Limit on Percentage Depletion for Oil and Natural Gas Produced from Marginal Properties

(a) Federal – The suspension of the taxable income limitation on the depletion allowance for oil and natural gas produced from marginal properties is extended for taxable years beginning in 2002 and 2003. (Public Law 107-147)

(b) Wisconsin – The allowance for depletion may not exceed 50% (100% in the case of oil and gas properties) of the taxpayer's taxable income from the property (computed without allowances for depletion).

11. Special Depreciation Allowance for Certain Property

(a) Federal – An additional first-year depreciation deduction equal to 30% of the adjusted basis of qualified property is allowed. In the case of the limitation on depreciation for luxury automobiles, the amount of depreciation allowable in the first year is increased by $4,600. (Public Law 107-147)

(b) Wisconsin – The special depreciation allowance for certain property does not apply. Depreciation must be computed under the provisions of the Internal Revenue Code in effect on December 31, 2000.

12. Special Depreciation Allowance for New York Liberty Zone Property

(a) Federal – An additional first-year depreciation deduction is allowed equal to 30% of the adjusted basis of qualified New York Liberty Zone property. (Public Law 107-147)

(b) Wisconsin – The additional 30% first-year depreciation deduction for qualified New York Liberty Zone property does not apply. Depreciation on such property must be computed under the provisions of the Internal Revenue Code in effect on December 31, 2000.

13. Treatment of Qualified Leasehold Improvement Property

(a) Federal – For purposes of the depreciation rules, 5-year property includes qualified New York Liberty Zone leasehold improvement property. (Public Law 107-147)

(b) Wisconsin – Depreciation on leasehold improvement property must be computed under the provisions of the Internal Revenue Code in effect on December 31, 2000.

14. Parsonage Allowance Exclusion

(a) Federal – Gross income does not include the rental allowance paid to a minister of the gospel as part of his compensation, to the extent used to rent or provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities. (Public Law 107-181)

(b) Wisconsin – Gross income does not include the rental allowance paid to a minister of the gospel as part of his compensation, to the extent used to rent or provide a home.

15. Exclusion of Survivor Benefits for Public Safety Officers

(a) Federal – The exclusion for survivor benefits for public safety officers killed in the line of duty is expanded to apply with respect to individuals who died on or before December 31, 1996. (Public Law 107-15)

(b) Wisconsin – The exclusion for survivor benefits for public safety officers killed in the line of duty applies only with respect to individuals dying after December 31, 1996.

16. Deduction for Higher Education Expenses

(a) Federal – A deduction is allowed for up to $3,000 of qualified tuition and related expenses paid during the taxable year in connection with enrollment at an institute of higher education. (Public Law 107-16)

(b) Wisconsin – The federal deduction for up to $3,000 of qualified tuition and related expenses does not apply for Wisconsin. (**Note** You may qualify for a deduction provided by Wisconsin law for up to $3,000 of tuition paid to attend certain educational institutions. See page 11 of the Form 1 instructions or page 16 of the Form 1NPR instructions.)

17. Health Insurance Costs of Self-Employed Individuals

(a) Federal – The amount of health insurance costs taken into account for the credit for health insurance costs of individuals receiving a trade readjustment allowance or a benefit from the Pension Benefit Guaranty Corporation may not be used in determining the deduction for health insurance costs of self-employed individuals. (Public Law 107-210)

(b) Wisconsin – The amount of health insurance costs used in determining the deduction for health insurance costs of self-employed individuals is determined under the provisions of the Internal Revenue Code in effect on December 31, 1999.

B. ITEMS AFFECTING THE COMPUTATION OF ITEMIZED DEDUCTIONS

1. Health Insurance Costs

(a) Federal – The amount of health insurance costs taken into account for the credit for health insurance costs of individuals receiving a trade readjustment allowance or a benefit from the Pension Benefit Guaranty Corporation may not be used as an itemized deduction for medical expenses. (Public Law 107-210)

(b) Wisconsin – The itemized deduction for medical expenses is determined under the provisions of the Internal Revenue Code in effect on December 31, 1999.