

# INSTRUCTIONS FOR 2004 SCHEDULE T

## WHO MUST FILE SCHEDULE T

Complete Schedule T if: (1) you sell or otherwise dispose of an asset which has a different basis for Wisconsin than for federal income tax purposes; or (2) you claim depreciation or amortization on an asset which has a different basis for Wisconsin than for federal income tax purposes.

**Exception:** Do not complete Schedule T if the difference is due to Wisconsin's definition of the Internal Revenue Code (use Schedule I instead), or to a different federal election used for federal versus Wisconsin tax purposes (redo federal return using election chosen for Wisconsin).

## GENERAL INSTRUCTIONS

An asset may be either a constant basis asset or a changing basis asset.

**Constant Basis Assets** Constant basis assets are assets, other than inventories, which are not subject to depreciation, depletion, or amortization, and which do not affect the computation of taxable income until you sell or otherwise dispose of them. Examples of constant basis assets are land, stocks, and bonds.

Account for any difference between the Wisconsin and federal bases of a constant basis asset only when you sell or otherwise dispose of the asset and recognize gain or loss on the transaction. Use Part I or Part II of Schedule T.

An adjustment for difference in basis generally applies to, but is not limited to:

- Constant basis assets which you owned on December 31, 1964 (or, if you filed on a fiscal year basis, on the last day of your 1964 fiscal year).
- Property you acquired by inheritance, the value of which was different for Wisconsin inheritance tax purposes than for federal estate tax purposes. This applies to property received as a result of deaths occurring before January 1, 1992.
- Stock you owned of a tax-option (S) corporation.

For a person who is not a legal resident of Wisconsin at the time of disposition of a constant basis asset, an adjustment is required only if the constant basis asset is located in Wisconsin.

**Example:** In 2004, you sold a vacant lot located in Wisconsin. You purchased the lot in 1960 for \$1,000 and never received income from use of the lot. Under prior Wisconsin law, you were required to capitalize the taxes you paid on this lot. During the period from 1960 through 1964, you paid a total of \$300 of real estate taxes on this lot. Your Wisconsin basis when you sold it was \$1,300 (\$1,000 plus \$300). For federal purposes you were allowed to deduct the real estate taxes and, therefore, your federal basis was \$1,000, the original cost. You must adjust your 2004 Wisconsin return to account for the \$300 difference in basis. Use Part I of Schedule T.

**Changing Basis Assets** Changing basis assets are inventories and assets or accounts, including liability and reserve

accounts created by accruals or other charges deducted from income, other than annuities. Changing basis assets include:

- Tangible property subject to depreciation, depletion, or amortization; intangible property subject to amortization of cost, premium, or discount.
- Capitalized intangible expenses such as trademark expense, research and development expense, and loan expense.
- Accruals, reserves, and deferrals of either income or expense.

Account for any difference between the Wisconsin and federal basis of a changing basis asset by writing off the difference in basis over the life of the asset. Use Part III of Schedule T. However, if you dispose of a changing basis asset before the entire difference in basis has been written off, account for the remaining difference in the year of disposition. Use Part II of Schedule T.

**Example:** In 2002, you acquired a depreciable asset you used in your trade or business. The asset had a useful life of 5 years and a Wisconsin basis of \$12,000 and a federal basis of \$14,000. During the years 2002, 2003, and 2004, you made adjustments on Schedule T to write off \$1,200 (three-fifths) of the basis difference. At the end of your 2004 taxable year you sold this asset. You must make an adjustment on your 2004 Wisconsin return to account for the remaining \$800 difference in basis. Use Part II of Schedule T.

## SPECIFIC INSTRUCTIONS

### PART I – ADJUSTMENT FOR CAPITAL ASSETS

Fill in Part I to adjust capital gains/losses if capital assets sold or otherwise disposed of in 2004 had a different basis for Wisconsin than for federal income tax purposes. (Do not list assets reported on federal Form 4797, such as depreciable property used in a trade or business, in Part I. See Part II.)

To figure your adjustment, first determine the holding period for each capital asset which had a different basis for Wisconsin than for federal income tax purposes.

For capital assets held one year or less, fill in line 1a. If the Wisconsin adjusted basis (column B) is more than the federal adjusted basis (column A), fill in a negative number in column C. Combine the amounts in column C and fill in the result on line 1b of Schedule T and on line 4 of Wisconsin Schedule WD (enter a negative number as a loss).

For capital assets held more than one year, fill in line 2a. If the Wisconsin adjusted basis (column B) is more than the federal adjusted basis (column A), fill in a negative number in column C. Combine the amounts in column C and fill in the result on line 2b of Schedule T and on line 12 of Wisconsin Schedule WD (enter a negative number as a loss).

**Note:** If there is not adequate space on lines 1a and 2a to list each capital asset which had a different basis for Wisconsin than for federal income tax purposes, attach a separate sheet to Schedule T, giving the required information.

**Example:** You disposed of the following capital assets in 2004. Each asset had a different Wisconsin than federal adjusted basis. All assets were held more than one year.

| Asset   | Federal Basis | Wisconsin Basis | Difference      |
|---------|---------------|-----------------|-----------------|
| Stock A | \$ 3,000      | \$ 4,000        | \$(1,000)       |
| Stock B | 20,000        | 15,000          | 5,000           |
| Gold    | 10,000        | 12,000          | (2,000)         |
| Total   |               |                 | <u>\$ 2,000</u> |

Fill in \$2,000 on line 2b of Schedule T and line 12, column (g), of Wisconsin Schedule WD.

## PART II – ADJUSTMENT FOR ASSETS REPORTED ON FEDERAL FORM 4797

Fill in Part II if you reported sales or other dispositions of assets on federal Form 4797 and there was a difference in the federal and Wisconsin adjusted bases of the assets.

For each asset you disposed of during 2004, fill in the description, federal adjusted basis, and Wisconsin adjusted basis on line 3.

To figure your adjustment (line 4), follow the three steps given below.

**Note:** The following instructions also apply if your share of partnership, tax-option (S) corporation, estate, or trust income includes a gain or loss reportable on federal Form 4797 and the gain or loss is different for Wisconsin than for federal income tax purposes.

**STEP 1:** Recompute your federal Form 4797, Sales of Business Property.

- For assets you sold or otherwise disposed of, use the Wisconsin basis from line 3 of Schedule T instead of the federal basis when recomputing Form 4797.
- For those assets disposed of by a partnership, tax-option (S) corporation, estate, or trust, use the Wisconsin gain or loss instead of the federal gain or loss when recomputing Form 4797. (**Note:** The Wisconsin gain or loss can be found on Wisconsin Schedule 3K-1, Wisconsin Schedule 5K-1, or Wisconsin Schedule 2K-1.)

Label this recomputed Form 4797 “Wisconsin.” Attach the “Wisconsin” Form 4797 to your Form 1 or Form 1NPR.

**Note:** In order to recompute Form 4797, you will also have to recompute Form 4684, 6252, or 8824 if any assets reported on these forms had a different Wisconsin than federal basis.

**STEP 2:** If you filled in a gain on line 7 or 9 of your “Wisconsin” Form 4797, you must use the figures from the “Wisconsin” Form 4797 to complete Wisconsin Schedule WD. Fill in the gain from your “Wisconsin” Form 4797 on line 9 of Schedule WD.

**STEP 3:** If you are filing Form 1, fill in lines 4a through 4h of Schedule T, as appropriate. (**Note:** Complete Step 3 only if you filled in Part II on either your federal or “Wisconsin” Form 4797.)

- If you have an ordinary gain for both federal and Wisconsin purposes, fill in lines 4a and 4b of Schedule T. Also fill in line 4c or line 4d, whichever applies.
- If you have an ordinary loss for both federal and Wisconsin purposes, fill in lines 4e and 4f of Schedule T. Also fill in line 4g or 4h, whichever applies.
- If you have an ordinary gain for federal purposes and line 18b(2) on the “Wisconsin” Form 4797 is blank or a loss, fill in lines 4a, 4b, 4e, and 4f of Schedule T. Also fill in line 4d and line 4g. Add the amounts on lines 4d and 4g and fill in the result on line 11 of Form 1.
- If you have an ordinary loss for federal purposes and line 18b(2) on the “Wisconsin” Form 4797 is blank or a gain, fill in lines 4a, 4b, 4e, and 4f of Schedule T. Also, fill in line 4c and line 4h. Add the amounts on lines 4c and 4h and fill in the result on line 4 of Form 1.

If you are filing Form 1NPR, do one of the following:

- Nonresidents – fill in the amount of ordinary gain or loss computed on the “Wisconsin” Form 4797 that is from Wisconsin sources on line 8, column B, of Form 1NPR.
- Part-year and full-year residents – fill in the amount of ordinary gain or loss computed on the “Wisconsin” Form 4797 that is from all sources while a Wisconsin resident and from Wisconsin sources while a nonresident, on line 8, column B, of Form 1NPR.

## PART III – CHANGING BASIS ASSETS

Fill in Part III if you acquired a changing basis asset and the Wisconsin basis of the asset is different than the federal basis.

You must make an adjustment to federal adjusted gross income for each year that you claim a deduction (depreciation, depletion, or amortization) for the asset to properly reflect the difference in basis. In effect, you will be writing off the difference in basis over the life of the asset.

If you are filing Form 1, fill in any adjustment for a difference in basis on line 4 or 11 of Form 1, whichever is appropriate. See lines 6 and 8 of Schedule T.

If you are filing Form 1NPR, combine any adjustment for a difference in basis with the income or loss from the activity in which the asset is used when figuring the amount to include in the Wisconsin column on the applicable line of Form 1NPR.

If you want to write off the difference in 5 years or less rather than make annual adjustments over the life of the asset, you must have the consent of the department. Send your request to the Technical Services Staff, Wisconsin Department of Revenue, PO Box 8933, Mail Stop 6-40, Madison WI 53708-8933.

If you dispose of an asset before you have made adjustments to write off the entire difference between the Wisconsin and federal bases, account for the remaining basis difference in the year you dispose of the asset. See the instructions for Part II.