

Wisconsin Partnership Form 3 Instructions

Important . . .

- **Allocation of income from lottery prizes**

All income realized from Wisconsin lottery prizes, including income from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in Wisconsin is allocated to Wisconsin. A multistate partnership includes this income on Form 4B, Part I, line 1. See page 13.

- **Single-owner LLCs**

A single-owner LLC that is disregarded as a separate entity for federal purposes is disregarded as a separate entity for Wisconsin franchise and income tax purposes. The owner of the disregarded entity must include the income and expenses of the disregarded entity in the owner's income or franchise tax return. The disregarded entity is not required to file a separate income or franchise tax return.

- **Wisconsin use tax**

Partnerships that purchase taxable tangible personal property or taxable services for storage, use, or consumption in Wisconsin without payment of a state sales or use tax are subject to a Wisconsin use tax. See page 15.

For More Information . . .

Visit the Department of Revenue's Internet web site at www.dor.state.wi.us

At this site you may download tax forms and instructions, Department of Revenue publications, and the *Wisconsin Tax Bulletin*, which is a quarterly newsletter that provides information about new Wisconsin tax laws, administrative rules, court decisions, tax releases, and private letter rulings. The site also provides links to Wisconsin laws and tax rules.

Don't Forget . . .

- Use the preprinted label if you received one
- Fill in your federal employer ID number
- Fill out the form completely
- Attach a copy of your federal return and any other required forms, schedules, or statements
- **Attach a copy of any extension**
- Sign the return

General Instructions

Purpose of Form 3

Partnerships, including limited liability companies (LLCs) treated as partnerships, use Form 3 to report their income, gains, losses, deductions, and credits. In addition to filing Form 3, partnerships may also be required to file Form 3S to compute their recycling surcharge. For an explanation of the surcharge, see page 3.

Definitions

Partnership – A partnership is an association of two or more persons to carry on as co-owners a trade or business for profit. The term “partnership” includes a limited partnership, registered limited liability partnership, syndicate, group, pool, joint venture, or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on, and is not, within the meaning of the Wisconsin income tax law, a corporation, trust, estate, or sole proprietorship.

Limited Partnership – A limited partnership is formed under a state limited partnership law and composed of at least one general partner and one or more limited partners.

Registered Limited Liability Partnership – A registered limited liability partnership (LLP) is formed under Wisconsin limited liability partnership law and registered under sec. 178.40, Wis. Stats. Generally, a partner in an LLP isn't personally liable for the debts of the LLP or any other partner.

Foreign Registered Limited Liability Partnership – A foreign limited liability partnership is formed pursuant to an agreement governed by the laws of a state other than Wisconsin or another country and registered under the laws of that jurisdiction.

General Partner – A general partner is a partner who is personally liable for partnership debts.

Limited Partner – A limited partner is a partner whose personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Note: A partner who has the authority to act for or bind the partnership in any way or to participate in any way in the management or business affairs of the partnership, or both, is deemed to be a general partner, even if the person is defined as a limited partner in the partnership agreement.

Limited Liability Company – A limited liability company (LLC) is an entity formed under state law by filing articles of organization as an LLC. Unlike a partnership, none of the members of an LLC are personally liable for its debts. However, members or other persons may be personally liable for the payment of taxes based on their responsibilities or actions. An LLC may be classified for federal income tax purposes as a partnership, a corporation, or as an entity disregarded as a separate entity from its owner. If an LLC is classified as a partnership for federal income tax purposes, it is treated as a partnership for Wisconsin purposes. An LLC classified as a corporation for federal income tax purposes is treated as a corporation by Wisconsin. An LLC disregarded as a separate entity for federal income tax purposes is also disregarded as a separate entity for Wisconsin income tax purposes. For more information, obtain Wisconsin Publication 119, *Limited Liability Companies (LLCs)*.

Who Must File

Every partnership and limited liability company treated as a partnership with income from Wisconsin sources, regardless of the amount, must file Form 3. For example, a partnership must file a return if it has income from –

- Business transacted in Wisconsin,
- Personal or professional services performed in Wisconsin,
- Real or tangible personal property located in Wisconsin, or
- Wisconsin lottery prizes, including income from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in Wisconsin.

Exceptions:

- A syndicate, pool, joint venture, or similar organization that isn't required to file a federal partnership return because it has elected under Internal Revenue Code (IRC) section 761(a) not to be treated as a partnership for federal income tax purposes may make a similar election for Wisconsin purposes. To make the election, attach a copy of the federal election statement to the Form 3 filed with the Department of Revenue for the year of election.

If the Wisconsin election is made, the organization generally won't have to file Form 3 except for the year of election. However, the Department of Revenue may require the organization to file a return so that a partner's Wisconsin tax liability may be computed.

- Publicly traded partnerships treated as corporations under IRC section 7704 must file Wisconsin Form 4 or 5 instead of Form 3.
- Limited liability companies treated as corporations for federal income tax purposes must file Wisconsin Form 4 or 5 instead of Form 3.
- Single member limited liability companies that are disregarded as separate entities under IRC section 7701 are disregarded as separate entities for Wisconsin purposes. The member is required to include the income and expenses of the limited liability company on the member's return.
- Common trust funds are treated as fiduciaries under Wisconsin law and must file Wisconsin Form 2 instead of Form 3.

Note: The Department of Revenue may require a partnership with Wisconsin resident partners to file a Wisconsin partnership return even though it has no Wisconsin business or income. For example, an out-of-state partnership that does no business in Wisconsin, has no property in Wisconsin, and has no income from Wisconsin sources may be requested to file a partnership return to enable the Department of Revenue to compute a Wisconsin resident partner's Wisconsin tax liability.

How to Obtain Forms

If you need forms or publications, you may:

- Download them from the Department's Internet web site at www.dor.state.wi.us
- Use your fax telephone to call the Department's Fax-A-Form Retrieval System at (608) 261-6229
- Request them on-line at www.dor.state.wi.us/html/formsreq.html
- Call (608) 266-1961
- Write to the Forms Request Office, Wisconsin Department of Revenue, Mail Stop 1-151, P.O. Box 8949, Madison, WI 53708-8949
- Call or visit any Department of Revenue office

How to Obtain Assistance

If you need help in preparing a partnership tax return, you may:

- E-mail your question to income@dor.state.wi.us
- Send a FAX to (608) 267-1030
- Call (608) 266-2772 [TTY (608) 267-1049]
- Write to the Customer Service and Education Bureau, Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8949, Madison, WI 53708-8949
- Call or visit any Department of Revenue office

Period Covered by Return

The return must cover the same period as the partnership's federal income tax return. File a 2004 Wisconsin return for calendar year 2004 or a fiscal year that begins in 2004.

If a partnership elects, under IRC section 444, to have a taxable year other than a required taxable year, that election also applies for Wisconsin. Unlike for federal purposes, the partnership doesn't have to make a required payment of tax as provided in IRC section 7519.

Accounting Methods

Figure ordinary income by the accounting method regularly used in maintaining the partnership's books and records. The method may include the cash receipts and disbursements method, an accrual method, or any other method permitted by the Internal Revenue Code in effect for Wisconsin. The method must clearly reflect income.

When and Where to File Return

A partnership must file its return with the Wisconsin Department of Revenue, P.O. Box 59, Madison, WI 53785-0001, by the 15th day of the 4th month following the close of its taxable year.

Extension of Time to File

Any extension allowed by the Internal Revenue Service for filing the federal return automatically extends the Wisconsin due date, provided you attach a copy of the federal extension to your Wisconsin return. If you aren't requesting a federal extension, but you need additional time to file your Wisconsin return, you may obtain an extension available to partnerships under federal law. To receive the Wisconsin extension, you must attach to the Wisconsin return you file a completed copy of the appropriate federal extension application form or a statement explaining which federal extension provision you are using.

Information Returns That May Be Required

Form 9b Report of rents, royalties, and miscellaneous compensation paid to individuals. (**Note:** You may use federal Forms 1099 instead of Forms 9b. Mail Forms 1099 to the Wisconsin Department of Revenue, P.O. Box 59, Madison, WI 53785-0001.)

If you must file federal information returns on magnetic media and you file at least 250 Forms 9b with Wisconsin, you generally must file Forms 9b on magnetic media or by electronic transfer. For more information, call (608) 267-3327, e-mail w2data@dor.state.wi.us, or write to the Magnetic Media Coordinator, Audit Bureau, Wisconsin Department of Revenue, Room 232B, 2135 Rimrock Road, P.O. Box 8906, Madison, WI 53708-8906.

Internal Revenue Service Adjustments and Amended Returns

If a partnership's federal tax return is adjusted by the Internal Revenue Service (IRS) and such adjustments affect the Wisconsin net tax payable, the amount of a Wisconsin credit, a Wisconsin net operating loss carryforward, or a Wisconsin capital loss carryforward of a partner, you must report such adjustments to the Department of Revenue within 90 days after they become final.

In addition, each partner must file an amended Wisconsin income tax return reporting his, her, or its share of each adjustment made by the IRS to the partnership return. Each partner must attach an amended Schedule 3K-1 to the amended return filed.

If the partnership and the partners file amended federal returns and the changes affect the Wisconsin net tax payable, the amount of a Wisconsin credit, a Wisconsin net operating loss carryforward, or a Wisconsin capital loss carryforward of a partner, both the partnership and the partners must file amended Wisconsin returns with the Department of Revenue within 90 days after filing the amended federal returns.

To file an amended Wisconsin return, use Form 3 and either check the "amended return" box on the front of the return or clearly mark it "AMENDED RETURN" at the top of the form. Attach an explanation of any changes made. If the change involves an item of income, deduction, or credit that you were required to support with a form or schedule on your original return, attach the corrected form or schedule. In addition, attach amended Schedules 3K-1 and provide a copy to the partners to attach to their amended Wisconsin returns.

Send a copy of the final federal audit reports and amended returns to the Wisconsin Department of Revenue, P.O. Box 8991, Madison, WI 53708-8991. Do not attach these items to the return for the current year.

Recycling Surcharge

Partnerships, including limited liability companies (LLCs) treated as partnerships, must pay the recycling surcharge if they –

- Must file a Wisconsin partnership return, Form 3,
- Derive income from business transacted, property located, or services performed in Wisconsin, and
- Have \$4 million or more of gross receipts for federal income tax purposes.

"Gross Receipts" are total receipts or sales from all trade or business activities or farming reportable by partnerships for federal income tax purposes, before deducting returns and allowances or any other business expenses. Gross receipts include the sum of the following amounts reportable on federal Form 1065 or its accompanying schedules:

- Gross receipts or sales reportable on federal Form 1065, line 1a,
- Gross receipts passed through from other partnerships and fiduciaries,
- The gross sales price from the sale or disposition of business assets,
- Gross receipts from the rental of real or tangible personal property,
- Gross receipts includable in computing other income or loss on federal Form 1065, line 7, and
- The total receipts or sales from federal Schedule F, Profit or Loss From Farming.

Note: When determining gross receipts, include interest and dividends from trade or business activities, such as interest and dividends received by partnerships that are dealers or traders in securities.

General Instructions (continued)

Syndicates, pools, joint ventures, or similar organizations that aren't required to file Wisconsin partnership returns because they have elected not to be treated as partnerships under IRC section 761(a) aren't subject to the recycling surcharge.

Single-owner LLCs that are disregarded as separate entities are not required to file Form 3S. The owner is required to include the income and expenses of the disregarded entity when computing the owner's surcharge due.

Partnerships figure the recycling surcharge on Form 3S, which must be filed by the due date, including extensions, for filing Form 3. However, the recycling surcharge must be **paid** by the 15th day of the 4th month following the close of the taxable period, regardless of the due date of the return.

Caution: Don't mail Form 3S with Form 3. The forms are to be mailed to different addresses.

If a partnership's recycling surcharge is \$200 or more, it generally must make estimated surcharge installment payments using Form 3S-ES or by electronic funds transfer. Failure to make the required estimated surcharge payments may result in an interest charge. Use Form 3U, Underpayment of Estimated Recycling Surcharge by Partnerships, to figure the amount of interest owed.

For more information, see Publication 400, *Wisconsin's Recycling Surcharge*.

Combined Return for Nonresident Partners

A partnership that operates 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 partnership's Wisconsin income or loss may file a combined individual and fiduciary income tax return on behalf of those partners. The partnership files this return on Form 1CNP.

A partner may not participate in this combined return if –

- 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 Wisconsin resident during any part of 2004.
- The partner derives taxable income from Wisconsin in 2004 other than his or her distributive share of partnership income or loss from one partnership.
- The partner wishes to claim any deductions or tax credits.

Each qualifying and participating partner's distributive share of partnership income or loss for a partnership's taxable year ending between January 31, 2004, and December 31, 2004, is reported on a 2004 Form 1CNP. The combined return replaces the separate 2004 Wisconsin individual or fiduciary income tax returns that otherwise would be filed by each of the qualifying and participating nonresident partners. The 2004 Form 1CNP is due April 15, 2005.

Line-by-Line Instructions

Caution: If you are filing federal Form 1065-B with the Internal Revenue Service, visit the Department of Revenue web site at www.dor.state.wi.us/faqs/pship.html or call (608) 266-2772 for additional information about completing your Wisconsin return.

The numbering corresponds with the line numbers on Form 3, unless otherwise indicated.

■ **Period Covered** – File a 2004 Wisconsin return for calendar year 2004 and fiscal years that begin in 2004. For a fiscal year or short taxable year, fill in the taxable year beginning and ending dates in the taxable year space at the top of the form. If the partnership terminated, enter the termination date as the ending date.

■ **Name and Address** – If the front cover of your booklet has a mailing label with the partnership's name and address, remove the label and place it in this area. Make any necessary corrections on the label. If you didn't receive a booklet with a label, print or type the partnership's name and address.

■ **A, B, and C. Identifying Numbers** – Enter the partnership's federal employer identification number (EIN), Wisconsin seller's permit, use tax, or consumer's use tax number, and Wisconsin employer identification (withholding) number.

■ **D and H. Contact Person** – Enter the name and telephone number of the person the Department should contact with any questions regarding this return.

■ **E. Amended Return** – Check the box if this is an amended return.

■ **F. Partnership Terminated** – Check the box if the partnership terminated during the taxable year.

■ **G. Request for 2005 Forms** – Check the box if you want the Department to send you partnership forms for 2005.

■ **I.** Check the box indicating which type of entity is filing this return. If your entity is not one of the types listed, check the "Other" box and indicate the type of entity next to this box.

■ **J.** Check the box if the entity has \$4 million or more of gross receipts, as defined on page 3. The entity is required to file Form 3S and pay the recycling surcharge.

IMPORTANT – The Wisconsin partnership law is based on the federal Internal Revenue Code (IRC). However, Wisconsin income must be figured using the Internal Revenue Code as amended to December 31, 2002, with the exceptions listed below. The Internal Revenue Code applies for Wisconsin purposes at the same time as for federal purposes.

Computing Federal Income for Wisconsin Purposes

Exceptions: The following federal law changes **do not apply** for Wisconsin franchise and income tax purposes:

- Public Law 106-519, FSC Repeal and Extraterritorial Income Exclusion Act of 2000, enacted November 15, 2000, relating to the repeal of the foreign sales corporation treatment and the allowance of an exclusion for extraterritorial income.

- Section 162 of Public Law 106-554, Community Renewal Tax Relief Act of 2000, enacted December 21, 2000, relating to the expensing of environmental remediation costs and the extension of the termination date.
- Section 165 of Public Law 106-554, Community Renewal Tax Relief Act of 2000, enacted December 21, 2000, relating to the enhanced deduction for corporate donations of computer technology and the extension of the termination date.
- Public Law 106-573, Installment Tax Correction Act of 2000, enacted December 28, 2000, relating to the restoration of the installment method of accounting for accrual basis taxpayers. For Wisconsin purposes, accrual basis taxpayers cannot use the installment method for reporting sales and other dispositions occurring on or after December 17, 1999. Instead, gain from the sale of property must be recognized in the year of the sale, rather than when the payments are received.
- Section 101 of Public Law 107-147, Job Creation and Worker Assistance Act of 2002, enacted March 9, 2002, relating to the 30% bonus depreciation allowance for qualified property acquired after September 10, 2001.

Federal law changes enacted after December 31, 2002 won't apply for Wisconsin purposes unless subsequently adopted by the Wisconsin Legislature. For example, Public Law 108-27, Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted May 28, 2003, **does not apply** for Wisconsin purposes. As a result, the increase in the section 179 deduction from \$25,000 to \$100,000, with inflation adjustments, and the increase in the additional first-year depreciation deduction to 50% of the cost of qualified property may not be claimed on your Wisconsin return. Other federal laws that do not apply include Public Law 108-311, Working Families Tax Relief Act of 2004, enacted October 4, 2004, and Public Law 108-357, American Jobs Creation Act of 2004, enacted October 22, 2004.

Account for any differences between the amounts reportable for federal and Wisconsin purposes on Form 3, Schedule 3K, column c.

Section 179 Differences

For Wisconsin purposes, the maximum amount of section 179 expense deduction allowable for 2003 and following years is \$25,000 per year. This dollar limitation is reduced by a dollar for each dollar of the cost of qualified property placed in service during the taxable year over \$200,000. Federal changes to the section 179 expense deduction enacted in 2003 do not apply for Wisconsin. The federal changes include the increase in the section 179 expense deduction from \$25,000 to \$100,000 (\$102,000 for 2004), the increase in the phase-out threshold from \$200,000 to \$400,000 (\$410,000 for 2004), and the treatment of off-the-shelf software as qualifying property. You must provide schedules detailing any differences between the federal and Wisconsin amounts of section 179 expense and depreciation and report the net differences as adjustments to federal income on Form 3, Schedule 3K, column c.

Depreciation Differences

For property placed in service in taxable years beginning on or after January 1, 2004, you must compute depreciation or amortization under the Internal Revenue Code as amended to December 31, 2000. For qualified property acquired after September 10, 2001, you may not claim the federal 30% bonus depreciation. The 50% additional first-year depreciation deduction may not be claimed for 50% bonus property acquired after May 5, 2003. Please provide a schedule detailing any differences between federal and Wisconsin depreciation amounts.

Show adjustments necessary to account for any differences between amounts reportable for federal and Wisconsin purposes on Form 3, Schedule 3K, column c.

Schedule 3K – Partners' Shares of Income, Deductions, etc.

Schedule 3K is a summary schedule of all the partners' shares of the partnership's income, deductions, credits, etc., as computed under Wisconsin law, similar to federal Schedule K.

■ **Column b. Federal amount** – Enter the applicable amounts from federal Schedule K in column b of Schedule 3K. For dividends and the net gain (loss) items reported on lines 6 and 9, use the **totals** for the year from federal Schedule K.

■ **Column c. Adjustment** – Enter any adjustments necessary to arrive at the amount of any partnership item under Wisconsin law in column c. **Be sure to attach to Form 3 an explanation of any adjustments in column c.**

Caution: Don't make any adjustments on Schedule 3K to exclude a nonresident or part-year resident partner's share of partnership items that are attributable to business transacted outside Wisconsin, services performed outside Wisconsin, or real or tangible personal property located outside Wisconsin and aren't taxable or deductible for Wisconsin purposes. These adjustments will be made on the Schedule 3K-1 of each affected partner, as described in the instructions for Schedule 3K-1 that follow.

In addition, don't make any adjustments on Schedule 3K (or on Schedule 3K-1) for an individual, estate, or trust partner's 60% capital gain deduction or capital loss limitation. Instead, each partner will compute its own capital gain deduction or loss limitation on Wisconsin Schedule WD.

Note: Show additions as a positive number. Show subtractions by putting the amount in parentheses.

■ **Lines 1 through 4, 6 through 13, 16, and 19.** Additions to or subtractions from federal amounts may be required for the following items:

1. *Adjustments required because a federal law doesn't apply for Wisconsin purposes*

You must make an adjustment if an amount in column b is figured under a provision of federal law that doesn't apply for Wisconsin purposes. This may occur if a federal provision is excluded from the definition of "Internal Revenue Code" for Wisconsin purposes or if a federal law change becomes effective for Wisconsin at a different time than federally. These adjustments are often called "Schedule I adjustments" because individuals must report them on Wisconsin Schedule I. Examples of Schedule I adjustments include the following:

- Certain federal law changes enacted before December 31, 2002, and any changes enacted after that date don't apply for Wisconsin purposes. See page 4 for details.
- For assets first placed in service in taxable years beginning on or after January 1, 2001, you must compute depreciation or amortization under the Internal Revenue Code as amended to December 31, 2000.

Line-by-Line Instructions (continued)

- For qualified property acquired after September 10, 2001, you may not claim the federal 30% bonus depreciation. The 50% additional first-year depreciation deduction may not be claimed for 50% bonus property acquired after May 5, 2003.
- An asset placed in service before 2004 must continue to be depreciated or amortized under the method allowable for Wisconsin purposes for the year in which it was placed in service.

In addition, many differences in Wisconsin and federal depreciation existed before 1987. For example, federal ACRS deductions weren't available for Wisconsin purposes for the following property placed in service during the 1986 taxable year: (a) residential real property, and (b) property used in farming, as defined in IRC section 464(e)(1), if the taxpayer's nonfarm Wisconsin adjusted gross income or gross farm profit exceeded specified amounts. Instead, such property had to be depreciated under a method permitted in the Internal Revenue Code as amended to December 31, 1980. This property must continue to be depreciated for Wisconsin purposes under the December 31, 1980, Internal Revenue Code.

- An adjustment is required in the year of the disposition of an asset if its basis differs for federal and Wisconsin purposes due to a law difference in a prior year.

2. Adjustments required because different elections are made for federal and Wisconsin purposes

Examples of different elections include the following:

- For assets placed in service in taxable years beginning before January 1, 2001, a partnership could compute depreciation or amortization under either the Internal Revenue Code in effect for the year for which the return was filed or the Internal Revenue Code as amended to a specific date, at the taxpayer's option. An asset placed in service before 2001 must continue to be depreciated or amortized under the method elected for Wisconsin purposes for the year in which it was placed in service.
- For property placed in service after December 31, 1982, a taxpayer that claimed investment tax credit for federal purposes could either (a) claim the full 10% credit and reduce the depreciable basis of the property by one-half of the credit, or (b) in the case of regular investment tax credit property, claim a reduced credit and depreciate the full cost of the property. A partnership that claimed the regular investment tax credit and reduced the depreciable basis of the property for federal purposes could compute depreciation on the full (unreduced) basis of the property for Wisconsin purposes.
- Wages that aren't deductible for federal purposes because they were used in computing the federal work opportunity tax credit may be deducted for Wisconsin purposes.

3. Adjustments required for modifications prescribed in Wisconsin law

Most modifications required to figure a partner's Wisconsin net income are computed by that partner rather than at the partnership level. This includes many of the modifications prescribed in sec. 71.05(6) to (12), (19), and (20), Wis. Stats. However, several types of modifications may be reportable by the partnership in column c, including the following:

- The amount of development zones credits computed by the partnership must be shown as an addition to ordinary income on line 1, column c.
- The amount of technology zone credit computed by the partnership must be shown as an addition to ordinary income on line 1, column c.
- The amount of manufacturer's sales tax credit computed by the partnership plus manufacturer's sales tax credits passed through from

other entities must be shown as an addition to ordinary income on line 1, column c.

- The amount of dairy investment credit computed by the partnership must be shown as an addition to ordinary income on line 1, column c.
- State taxes and taxes of the District of Columbia that are value-added taxes, single business taxes, or taxes on or measured by all or a portion of net income, gross income, gross receipts, or capital stock are not deductible by partnerships. These amounts must be shown as additions to ordinary income on line 1, column c.
- Certain basis differences are treated as modifications. For example, for Wisconsin purposes, property taxes paid on vacant land had to be capitalized for 1964 and prior taxable years. A transitional adjustment must be made for this basis difference upon disposition of the property. Recompute the gain or loss on federal Form 4797 or federal Schedule D, as appropriate, by substituting the Wisconsin basis for the federal basis. Show the difference as a modification in column c.

■ **Lines 5, 17a, and 19c.** Additions to or subtractions from the federal amounts may be required for the following items.

- If the interest income reported on line 5, column b, includes any interest from obligations of the United States government and its instrumentalities, identify this amount on a separate schedule for line 19c. **Do not** subtract this amount on Schedule 3K, line 5, column c.
- If the tax-exempt interest income reported on line 17a, column b, includes any interest that is exempt for federal purposes but taxable by Wisconsin, such as state and local government bond interest, report this amount as an **addition** on line 5, column c, and as a **subtraction** on line 17a, column c.

■ **Lines 17b, and 17c.** Additions to or subtractions from the federal amounts may be required for the following items.

- Income reported on line 17b that is exempt for federal purposes but taxable by Wisconsin is shown as a **subtraction** in column c. If more income is nontaxable for Wisconsin purposes than for federal purposes, show the additional amount of exempt income as an **addition**. The amount under Wisconsin law in column d is the amount of tax-exempt income for Wisconsin purposes.
- Expenses on line 17c that are nondeductible federally but deductible for Wisconsin purposes are shown as **subtractions** in column c. If more expenses are nondeductible for Wisconsin purposes than for federal purposes, show the additional amount of nondeductible expenses as an **addition**. The amount under Wisconsin law in column d is the nondeductible expense for Wisconsin purposes.

■ **Column d. Wisconsin amount** – Combine the amount in column b with any adjustments in column c and enter the result.

■ **Line 14a.** Enter, in column d, the amount of manufacturer's sales tax credit computed by the partnership from Wisconsin Schedule 3Z, line 12.

Partnerships engaged in manufacturing or who have manufacturer's sales tax credits passed through from other entities must complete Schedule 3Z to determine the amount of manufacturer's sales tax credit to pass through to their partners. Attach Schedule 3Z to the Form 3 filed with the Department.

■ **Line 14b.** Enter, in column d, the available dairy investment credit from Wisconsin Schedule DI, line 5. Attach Schedule DI to the Form 3 filed with the Department.

Partners of partnerships that pay certain amounts for dairy farm modernization or expansion of their dairy farm in Wisconsin may be eligible for a tax credit.

■ **Line 14c.** Enter, in column d, the available development zones credit from Wisconsin Schedule DC, line 5. Attach Schedule DC to the Form 3 filed with the Department.

Partners of partnerships doing business in Wisconsin development, development opportunity, enterprise development, or agricultural development zones may be eligible for tax credits based on expenditures for environmental remediation and job creation or retention.

The Wisconsin Department of Commerce administers the Wisconsin development zones programs. For more information about the programs, visit the Department of Commerce web site at www.commerce.state.wi.us/CD/CD-bed.html, write to the Division of Community Development, Wisconsin Department of Commerce, P.O. Box 7970, Madison, WI 53707-7970, or call (608) 266-3751.

■ **Line 14d.** Enter, in column d, the available development opportunity zone investment credit from Schedule DC, line 11. Attach Schedule DC to the Form 3 filed with the Department.

■ **Line 14e.** Enter, in column d, the available development opportunity zone or agricultural development zone capital investment credit from Schedule DC, line 19. Attach Schedule DC to the Form 3 filed with the Department.

■ **Line 14f.** Enter, in column d, the available technology zone credit from Wisconsin Schedule TC, line 6. Attach Schedule TC to the Form 3 filed with the Department.

Partners of partnerships doing business in Wisconsin technology zones may be eligible for a tax credit based on the property taxes paid, capital investments made, and jobs created. The Department of Commerce administers the Wisconsin technology zone program. For more information about the program, visit the Department of Commerce web site at www.commerce.state.wi.us/CD/CD-bed-tz-general.html, write to the Division of Community Development, Wisconsin Department of Commerce, P.O. Box 7970, Madison, WI 53707-7970, or call (608) 266-2688.

■ **Line 14g.** Enter, in column d, the available supplement to the federal historic rehabilitation tax credit from Wisconsin Schedule HR, line 5. Attach Schedule HR to the Form 3 filed with the Department.

Partners of partnerships that rehabilitate certified historic structures located in Wisconsin and used for business purposes may claim a credit.

The Wisconsin Historical Society administers the historic preservation program. For more information about this program, visit the Historical Society's web site at www.wisconsinhistory.org/hp/buildings, write to the Division of Historic Preservation, Wisconsin Historical Society, 816 State Street, Madison, WI 53706-1488, or call (608) 264-6500.

■ **Line 15.** If the partnership does business in another state and either the partnership or its partners must pay an income or franchise tax on or measured by the partnership's income earned there, Wisconsin resident partners may be able to claim credit on their individual income tax returns for their pro rata shares of the tax paid. Credit is allowed only if the income taxed by the other state is considered taxable income by Wisconsin.

Fill in line 15 if –

- The partnership files a combined or composite return with that state on behalf of the partners who are nonresidents of that state and pays the tax on their pro rata shares of the partnership's income earned there.
- The partnership files a partnership income tax return with that state and pays tax on the income earned there that is attributable to the partners who are nonresidents of that state.

Enter the name of the state in the space provided and the amount of income tax paid to that state in column d. If tax is paid to more than one state, write "see attached" on the entry line, enter the total amount in column d, and attach a schedule listing all states and the amount of income tax paid to each state.

Attach to Form 3 a copy of the income tax return filed with each state for which a credit is claimed.

■ **Line 19c.** On an attached schedule, show any items and amounts not included on lines 1 through 19b that must be reported separately to the partners. Include the federal amount, any adjustment, and the amount determined under Wisconsin law for each item.

- If the interest income on line 5, column b, includes any interest from United States government obligations that is taxable for federal purposes but exempt from Wisconsin income taxes, report the amount of United States government interest on this schedule.
- If the partnership disposed of property for which a section 179 expense deduction was claimed in a prior year, provide the following information for each asset: description of the property; gross sales price; both the federal and the Wisconsin cost or other basis plus expense of sale (**excluding** the partnership's basis reduction in the property due to the section 179 expense deduction); depreciation allowed or allowable (**excluding** the section 179 expense deduction); and both the federal and Wisconsin amount of section 179 expense deduction passed through in previous years for the property and the partnership's taxable years for which the amounts were passed through.

■ **Line 20.** Combine lines 1 through 11 in columns b and d. From the result, subtract the sum of lines 12 and 13a through 13e. Add or subtract, as appropriate, any income or deductions reported on line 19c that affect the computation of taxable income.

Caution: If you reported on line 19c the disposition of property for which a section 179 expense deduction was claimed in a prior year, complete federal Form 4797 to figure the amount of gain or loss to combine with the other items of income, loss, and deduction. If the federal and Wisconsin bases of the property or section 179 deductions differ, use two Forms 4797. Disregard the special instructions for partnerships and partners when filling out Form 4797. On one Form 4797, determine the federal gain or loss to combine with the other federal amounts reported in column b. Complete a second Form 4797 to compute the Wisconsin gain or loss to combine with the other Wisconsin amounts reported in column d.

■ **Signatures** – A general partner of the partnership or an LLC member must sign the form 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 the federal Form 1065 and supporting schedules. Also attach a copy of either Wisconsin Schedule 3K-1 or federal Schedule K-1, as appropriate, for each partner.

Schedule 3K-1 – Partner’s Share of Income, Deductions, etc.

Schedule 3K-1 shows each partner’s share of the partnership’s income, deductions, credits, etc., which have been summarized on Schedule 3K. Like Schedule 3K, Schedule 3K-1 requires an entry for the federal amount, adjustment, and amount determined under Wisconsin law of each applicable partnership item. In addition, Schedule 3K-1 for a nonresident or part-year resident partner of a multistate partnership requires a separate entry for the amount of each share item attributable to Wisconsin.

Prepare a Schedule 3K-1 for each individual or entity that was a partner in the partnership at any time during the partnership’s taxable year. Attach a copy of each partner’s Schedule 3K-1 to the Form 3 filed with the Department. Keep a copy as part of the partnership’s records, and give each partner his, her, or its own separate copy. Schedule 3K-1 must be prepared and given to each partner on or before the day on which Form 3 is filed. In addition, give each partner a copy of the “Partner’s Instructions for 2004 Schedule 3K-1.”

Since the Wisconsin Schedule 3K-1 replaces the federal Schedule K-1, a partnership doesn’t have to also file a federal Schedule K-1 for each partner with Form 3.

Partnerships with 100 or more partners may file Schedules 3K-1 using cartridge, diskette, CD-ROM, or electronic transfer. You may obtain specifications by calling (608) 267-3327.

Note: You may submit copies of the federal Schedules K-1 instead of preparing Schedules 3K-1 in the following situations:

- If the partnership operates only in Wisconsin and, on Schedule 3K, reports **no** adjustments in column c or credits in column d, you may use Schedules K-1 to report the Wisconsin partnership items for all partners.
- If the partnership operates in and outside Wisconsin and, on Schedule 3K, reports **no** adjustments in column c or credits in column d, you may use Schedules K-1 for full-year Wisconsin resident partners.

Be sure to state on the partner’s federal Schedule K-1, including the copy filed with the Department, that there aren’t any Wisconsin adjustments or credits.

Part I - Information About the Partnership

■ **Items A through F.** Enter the information about the partnership from the partner’s federal Schedule K-1.

Part II - Information About the Partner

■ **Items G through N.** Enter the information about the partner from the partner’s federal Schedule K-1.

Caution: If the partner is a corporation or another partnership, don’t complete items O, P, or Q.

■ **Item O.** Enter the partner’s state of residence (domicile). If the partner’s state of residence changed during the partnership’s taxable year, indicate all states involved. If the partner moved into or out of Wisconsin during the partnership’s taxable year and the partnership has activities in more than one state, the partner’s Wisconsin share of the distributive items will be affected. See the instructions below for more information.

■ **Item P.** Check this box only if the partner is a nonresident or part-year resident of Wisconsin during the partnership’s taxable year and the partnership is a unitary, multistate partnership that must compute its Wisconsin income under the apportionment method. See “Determining the Wisconsin Income of Multistate Partnerships” on page 12. Complete Form 4B on the back of Form 3 and enter the partnership’s apportionment percentage from Form 4B, line 28 or 33, as appropriate.

■ **Item Q.** Check this box only if the partner is a nonresident or part-year resident of Wisconsin during the partnership’s taxable year and the partnership is a nonunitary, multistate partnership that must compute its Wisconsin income under the separate accounting method. See “Determining the Wisconsin Income of Multistate Partnerships” on page 12. Attach a schedule, similar to Form 4C, that shows the allocation of the amount under Wisconsin law in column d of each applicable partnership item reported on Form 3, Schedule 3K, to Wisconsin and outside Wisconsin and the basis of such allocation.

■ **Item R.** If the partnership ceased to exist or withdrew from Wisconsin or if the partner terminated his, her, or its interest in the partnership during the taxable year, check the “Final 3K-1” box. To correct an error on a Schedule 3K-1 already filed, file an amended Schedule 3K-1 and check the “Amended 3K-1” box.

Part III - Partner’s Share of Current Year Income, Deductions, Credits, and Other Items

Part III of Schedule 3K-1 shows each partner’s proportionate share of the items reported on Wisconsin Schedule 3K. In addition, it shows a nonresident or part-year resident partner’s share of a multistate partnership’s items that are reportable to Wisconsin.

Column a – Distributive share items. Use the applicable codes from the federal Schedule K-1 for other income, other deductions, alternative minimum tax (AMT) items, nondeductible expenses, distributions, and other information.

Column b – Federal amount. The federal amount is the partner’s share of the amount from Wisconsin Schedule 3K, column b, and should agree with the amount for that item reported on the partner’s federal Schedule K-1.

Column c – Adjustment. The adjustment is the partner’s share of the amount from Wisconsin Schedule 3K, column c. **Note:** On an attached schedule, explain the reason for any adjustment in column c. If the difference arises because a federal law change has not been adopted by Wisconsin, identify it as a “Schedule I adjustment.” Individual partners must account for this difference on Wisconsin Schedule I.

Column d – Amount under Wisconsin law. The amount under Wisconsin law is the partner’s share of the amount from Wisconsin Schedule 3K, column d. This is the amount used in computing Wisconsin income by –

- A full-year resident of Wisconsin.
- A part-year resident of Wisconsin if the partnership is doing business only in Wisconsin.
- A nonresident of Wisconsin if the partnership is doing business only in Wisconsin.
- A corporation or another partnership that is a partner.

Column e – Wisconsin source amount. **Fill in this column only for a nonresident or part-year resident of Wisconsin who is a partner in a partnership that is doing business in and outside Wisconsin.** The Wisconsin source amount is that portion, determined by apportionment or separate accounting as appropriate, of a nonresident or part-year resi-

dent partner's amount from Wisconsin Schedule 3K-1, column d, that is attributable to Wisconsin. **Do not fill in column e for a partner who is a full-year resident of Wisconsin, a corporation, or another partnership.**

■ **Lines 1 through 4, 7 through 13, 16, and 19.** Enter the partner's share of the federal amount, adjustment, and amount determined under Wisconsin law for each item. If applicable, enter a nonresident's or part-year resident's Wisconsin source amount.

A. Corporations and Other Partnerships

A corporation's or another partnership's amount under Wisconsin law in column d of each item of income, loss, or deduction is the amount determined under Wisconsin law *before* apportionment or separate accounting. A corporation that is a partner generally combines its share of the partnership items with its own items of income, loss, and deduction. The corporation includes its share of the numerator and denominator of the partnership's apportionment factors in the numerator and denominator of its own apportionment factors. The corporation then multiplies its total apportionable income by the resulting apportionment percentage to determine its income attributable to Wisconsin.

Note: Income from a partnership may be nontaxable under the principles of the U.S. Supreme Court decision in *Allied-Signal v. Director, Div. of Taxation*, 504 U.S. 768 (1992), if the investment is passive and does not serve an operational function. In this case, the corporation would not include its share of the partnership's items of income, loss, and deduction in its apportionable income and its share of the partnership's apportionment factors in the numerator and denominator of its apportionment factors.

Another partnership that is a partner combines its share of the partnership items with its own items of income, loss, and deduction that it passes through to its partners. Similarly, the partnership includes its share of the numerator and denominator of the reporting partnership's apportionment factors in the numerator and denominator of its own apportionment factors.

Combine the amounts in column b with any adjustments in column c and enter the results in column d. The amounts on Schedule 3K-1, column d, should be the amounts from Schedule 3K, column d, multiplied by the partner's profit and loss percentage. Do not fill in column e.

B. Individual, Estate, and Trust Full-Year Residents of Wisconsin

All partnership income of full-year Wisconsin residents is taxable regardless of the situs of the partnership or the nature of the income from the partnership, such as business income, service income, or professional income, unless otherwise exempt (such as United States government interest). This applies to both general partners and limited partners.

Therefore, a Wisconsin resident partner's share of the adjustment and amount determined under Wisconsin law for each item is the partner's proportionate share of the adjustment and amount under Wisconsin law shown on Schedule 3K. Do not fill in column e. See the example on page 11.

C. Individual, Estate, and Trust Nonresidents of Wisconsin

A nonresident partner's share of the partnership's income derived from business transacted in Wisconsin, services performed in Wisconsin, or real or tangible personal property located in Wisconsin is taxable by Wisconsin. Gains and losses resulting from sales of stocks, bonds, or other intangibles which are passed through to nonresident partners aren't taxable by Wisconsin. Business income is taxable whether or not the individual partner conducts business in Wisconsin. This applies to both

general partners and limited partners. 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. A nonresident is one of two equal partners of 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 partner operates the Illinois business. The Wisconsin resident is taxed on one-half of the total partnership income for Wisconsin income tax purposes. The nonresident is taxed on one-half 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 partnership income earned in Wisconsin.

If the partnership's entire income is derived from business transacted or property located in Wisconsin, a nonresident partner's share of the adjustment and amount determined under Wisconsin law of each item is the partner's proportionate share of the adjustment and amount under Wisconsin law shown on Schedule 3K, columns c and d, respectively. Do not fill in column e.

If the partnership derives income from business transacted or property located in and outside Wisconsin, a nonresident partner's Wisconsin source amount in column e of each item is the partner's amount determined under Wisconsin law from column d that is attributable to Wisconsin based on apportionment or separate accounting, as appropriate.

If the partnership is a unitary, multistate business, compute the nonresident partner's Wisconsin source amount in column e of each item by multiplying the amount under Wisconsin law in column d for that item by the apportionment percentage from item P. See the example on page 11.

If the partnership has nonapportionable income (loss) on Form 4B, line 5, compute the nonresident partner's Wisconsin source amount in column e of any affected item by multiplying the amount of the nonapportionable item from Schedule 3K-1, column d, that is attributed to Wisconsin on Form 4B by the partner's proportionate share.

If the partnership is a nonunitary, multistate business, compute the Wisconsin source amount in column e of each item by multiplying the amount from Schedule 3K-1, column d, that is allocated to Wisconsin on a schedule similar to Form 4C by the nonresident partner's proportionate share.

Line-by-Line Instructions (continued)

If the partnership derives income from personal services, a nonresident partner's Wisconsin source amount in column e is equal to the value of the services he or she personally performed in Wisconsin. If the nonresident partner didn't personally perform any services in Wisconsin, the Wisconsin source amount in column e for that partner is zero.

Caution: Regardless of any provision in the partnership agreement, a nonresident partner must limit the amount of his or her non-Wisconsin income to the same percentage that the partnership's non-Wisconsin income is to all its income. In addition, a nonresident partner must limit the amount of his or her Wisconsin losses or deductions to the same percentage that the partnership's Wisconsin losses or deductions are to all its losses or deductions. The characterization in a partnership agreement of payments to nonresident partners as salary, or as interest for the use of capital, can't affect the determination of whether such payments are derived from Wisconsin sources.

Note: The partner uses the information from Schedule 3K-1, column d, to calculate the Wisconsin basis in the partnership.

D. Individual Part-Year Residents of Wisconsin

Individuals who are part-year residents of Wisconsin must report to Wisconsin –

- All partnership income or loss, regardless of where it is earned or incurred, while they were residents of Wisconsin, and
- All partnership income or loss derived from business transacted in Wisconsin, personal services they personally performed in Wisconsin, or real or tangible personal property located in Wisconsin, while they were nonresidents of Wisconsin.

If the partnership's entire income is derived from business transacted or property located in Wisconsin, a part-year resident partner's share of the adjustment and amount under Wisconsin law of each item is the partner's proportionate share of the adjustment and amount determined under Wisconsin law shown on Schedule 3K, columns c and d, respectively.

If the partnership derives income from activities in and outside Wisconsin, a part-year resident partner computes the Wisconsin source amount in column e of each item in two parts: one for the portion of the partnership's taxable year that the partner was a resident of Wisconsin and one for the portion of the partnership's taxable year that the partner was a nonresident of Wisconsin. For this purpose, the amount of any share item is determined on a daily basis. That is, every share item is allocated between the periods during which the partner was a resident or nonresident based on the number of days during the partnership's taxable year that the partner was a resident or nonresident of Wisconsin. The partner's share of an item for each period (resident or nonresident) is figured in the same manner as that of full-year residents and nonresidents, respectively. See the example on page 11.

■ **Lines 5, 6, and 17a.** Enter the partner's share of the federal amount, adjustment, and amount determined under Wisconsin law for each item. If applicable, enter a part-year resident's or nonresident's Wisconsin source amount.

A. Corporations and Other Partnerships

A corporation's or another partnership's amount under Wisconsin law in column d is the amount determined under Wisconsin law *before* apportionment or separate accounting. Combine the amounts in column b with any adjustments in column c and enter the results in column d. The amounts on Schedule 3K-1, column d, should be the amounts from Schedule 3K multiplied by the partner's profit and loss percentage. Do not fill in column e. If the interest income on line 5 includes interest from U.S. government obligations in column b, report the amount of this interest on line 19.

B. Full-Year Residents of Wisconsin

Generally, intangible income, such as interest and dividends, passed through to partners who are full-year Wisconsin residents is taxable. However, the amount of interest on United States government obligations included on line 5, column d, is not taxable for Wisconsin income tax purposes and is reported on line 19. Interest on state and local government bonds generally is exempt for federal purposes but taxable by Wisconsin. Show the amount of state and local government bond interest that is taxable by Wisconsin as an *addition* on line 5, column c, and as a *subtraction* on line 17a, column c.

Enter the partner's proportionate share of the adjustment and amount determined under Wisconsin law shown on Schedule 3K. Do not fill in column e. See the example on page 11.

C. Nonresidents of Wisconsin

Intangible income, such as interest and dividends, passed through to a nonresident partner generally isn't taxable by Wisconsin. This applies to both general partners and limited partners.

For income reported on lines 5, 6, and 17a, the adjustment in column c and the amount determined under Wisconsin law in column d are the nonresident partner's proportionate share of the amounts from Schedule 3K. For lines 5 and 6, the Wisconsin source amount to report in column e is zero. For line 17a, do not fill in column e. See the example on page 11.

D. Part-Year Residents of Wisconsin

Individuals who are part-year residents of Wisconsin must report to Wisconsin intangible income, such as interest and dividends, passed through while they were Wisconsin residents. The intangible income is allocated between the periods during which the partner was a resident or nonresident based on the number of days during the partnership's taxable year that the partner was a resident or nonresident of Wisconsin. This applies whether the partnership operated solely in Wisconsin or in and outside Wisconsin. See the example on page 11.

■ **Lines 13 and 19.** Enter the partner's share of the federal amount, adjustment, and amount determined under Wisconsin law for each item.

If these amounts are allowable in computing an individual's Wisconsin itemized deduction credit, multiply the amounts on Schedule 3K, column d, by the partner's profit and loss percentage. For a nonresident or part-year resident of Wisconsin, enter the amount from column d in column e. Don't apply the apportionment percentage or use the amount determined by separate accounting, regardless of the partner's state of residence.

If the amounts are adjustments to Wisconsin income, instead of deductions used in figuring the itemized deduction credit, multiply the amounts on Schedule 3K, column d, by the partner's profit and loss percentage and enter the result in column d. For a nonresident or part-year resident of Wisconsin, figure the amount attributable to Wisconsin, using apportionment or separate accounting as appropriate, and enter the result in column e. Do not fill in column e for a full-year resident of Wisconsin, a corporation, or another partnership.

■ **Line 14a.** Enter the partner's proportionate share of the manufacturer's sales tax credit from Schedule 3Z.

■ **Line 14b.** Enter the partner's proportionate share of the dairy investment credit from Schedule DI.

■ **Line 14c.** Enter the partner's proportionate share of the development zones credit from Schedule DC.

■ **Line 14d.** Enter the partner's proportionate share of the development opportunity zone investment credit from Schedule DC.

■ **Line 14e.** Enter the partner's proportionate share of the development opportunity zone or agricultural development zone capital investment credit from Schedule DC.

■ **Line 14f.** Enter the partner's proportionate share of the technology zone credit from Schedule TC.

■ **Line 14g.** Enter the partner's proportionate share of the supplement to the federal historic rehabilitation tax credit from Schedule HR.

Caution: The basis of the partner's interest in the partnership must be reduced by its proportionate share of the historic rehabilitation credit computed.

Note: Credits are computed in the same manner for partners who are full-year, part-year, or nonresidents of Wisconsin. For part-year and nonresident partners of multistate partnerships, also enter the allowable credits in column e.

■ **Line 15.** Complete this line only for full-year Wisconsin resident partners and part-year Wisconsin resident partners. Enter zero for partners who are nonresidents of Wisconsin or corporations.

For a full-year resident, enter in column d the partner's proportionate share of the tax credit on Schedule 3K, line 15.

For a part-year resident, credit is allowable for only the portion of the partnership's taxable year that the partner was a Wisconsin resident. Therefore, enter in column d the amount computed by multiplying the credit on Schedule 3K, line 15, by the partner's profit and loss percentage. Multiply that result by the ratio of days that the partner was a resident of Wisconsin during the partnership's taxable year to the total days in the partnership's taxable year and enter the result in column e.

■ **Lines 17b and 17c.** Enter the partner's proportionate share of the federal amount, adjustment, and amount determined under Wisconsin law from Schedule 3K for each of these items. Do not fill in column e.

Note: If the partner is a corporation or another partnership, identify the sources of the tax-exempt income for Wisconsin. This income may be includable in taxable income if passed through to a corporation subject to the franchise tax.

■ **Line 18.** Enter the distributions of money and property made to each partner. Do not fill in column e.

■ **Line 19.** Complete as necessary. Include the federal amount, adjustment, amount determined under Wisconsin law, and Wisconsin source amount for each item when applicable. Attach additional schedules if more space is needed. Include the following items on line 19:

- The amount of interest income from United States government obligations that is included on Schedule 3K-1, line 5, column d (column e for nonresidents and part-year residents of Wisconsin).
- Information on the sale, exchange, or other disposition of property for which the section 179 expense deduction was claimed.
- If the partnership is engaged in both farming and some other business activity, indicate on the Schedules 3K-1 of noncorporate partners the portion of each of the share items that is attributable to the farm operations. The partners use this information in applying the farm loss limitations.
- Any information needed by a partner to determine why the Wisconsin amount of any item differs from the federal amount.

Note: Partnerships whose Wisconsin partners may qualify for farmland preservation credit or farmland tax relief credit should attach a copy of the farmland property tax bill to the Schedule 3K-1 given to each Wisconsin partner. It isn't necessary for the partnership to attach the property tax bill to the Schedules 3K-1 sent to the Department. Partners will compute their allowable credits based on their proportionate shares of the partnership's property taxes. For additional information about farmland preservation credit, see the Wisconsin Schedule FC instructions. See the instructions for Wisconsin Form 1, 1NPR, 4, or 5 for details on the farmland tax relief credit.

■ **Line 20.** Enter the partner's proportionate share of the partnership's gross income that is reportable to Wisconsin. Gross income is the total amount received from all activities, before deducting the cost of goods sold or any other expenses. Gross income includes gross receipts from trade or business activities, gross rents and royalties, interest and dividends, the gross sales price of assets, and all other gross receipts.

Enter each partner's share of the partnership's gross income in column d. For part-year and nonresident partners of multistate partnerships, enter the partner's share of the gross receipts that are attributable to Wisconsin in column e.

Part IV – Partner's Share of Apportionment Factors

For a corporation or another partnership that is a partner, enter the partner's proportionate share of the partnership's Wisconsin and total company apportionment factors from Form 4B.

Example of Schedule 3K-1 for Individual Partners

ABC Partnership is a calendar year multistate partnership whose income is attributable 70% to a business located in Wisconsin. There are three individual partners (A, B, and C) who each have a one-third interest in the profits and losses of the partnership. Partner A was a Wisconsin resident during all of 2004. Partner B was an Illinois resident during this period. Partner C was a resident of Wisconsin until moving to Florida on April 1, 2004. Therefore, Partner C was a part-year resident of Wisconsin during the partnership's taxable year, having been a resident for 91 days and a nonresident for 275 days.

Schedule 3K for the year ending December 31, 2004, shows the following amounts on the lines indicated.

	(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amt. under Wis. law
1	Ordinary income	\$ 9,000	\$ 600	\$ 9,600
5	Interest income	700	300	1,000
17a	Tax-exempt interest income	300	(300)	-0-
19c	U.S. government interest included on line 5, column d: \$100			

For Partner A, Schedule 3K-1 would show the following:

	(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under Wis. law	(e) Wis. source amount
1	Ordinary income	\$ 3,000	\$ 200	\$ 3,200	
5	Interest income	233	100	333	
17a	Tax-exempt interest income	100	(100)	-0-	
19	U.S. government interest included on line 5, column d: \$33				

These amounts are computed by multiplying the amounts from Schedule 3K by Partner A's 33.33% profit and loss percentage.

Line-by-Line Instructions (continued)

For Partner B, Schedule 3K-1 would show the following:

	(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under Wis. law	(e) Wis. source amount
1	Ordinary income	\$ 3,000	\$ 200	\$ 3,200	\$2,240
5	Interest income	233	100	333	-0-
17a	Tax-exempt interest income	100	(100)	-0-	
19	U.S. government interest included on line 5, column e: \$0				

The federal amounts in column b, adjustments in column c, and amounts under Wisconsin law in column d are computed by multiplying the amounts from Schedule 3K by Partner B's 33.33% profit and loss percentage.

For ordinary income, compute the Wisconsin source amount for column e by multiplying the amount under Wisconsin law from column d by ABC Partnership's 70% apportionment percentage.

Since Partner B is a nonresident of Wisconsin, the Wisconsin source amount of the interest income on line 5, column e, is zero. Do not fill in line 17a, column e.

For Partner C, Schedule 3K-1 would show the following:

	(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under Wis. law	(e) Wis. source amount
1	Ordinary income	\$ 3,000	\$ 200	\$ 3,200	\$ 2,479
5	Interest income	233	100	333	83
17a	Tax-exempt interest income	100	(100)	-0-	
19	U.S. government interest included on line 5, column e: \$8				

The federal amounts in column b, adjustments in column c, and amounts under Wisconsin law in column d, are computed by multiplying the amounts from Schedule 3K by Partner C's 33.33% profit and loss percentage.

Compute the Wisconsin source amounts in column e in two parts: one for the 91-day period that Partner C was a resident of Wisconsin and one for the 275-day period that Partner C was a nonresident of Wisconsin.

The Wisconsin source amount of the ordinary income on line 1, column e, is computed as follows:

(1) For the period of residence, multiply the \$3,200 amount determined under Wisconsin law of ordinary income from Schedule 3K-1, column d, by 91/366, which is the ratio of days Partner C was a resident of Wisconsin to total days in the partnership's taxable year. Add to that result the amount computed for the period of nonresidence in (2) below.

(2) For the period of nonresidence, multiply the \$3,200 amount determined under Wisconsin law of ordinary income from Schedule 3K-1, column d, by ABC Partnership's 70% Wisconsin apportionment percentage. Multiply the result by 275/366, which is the ratio of days Partner C was a nonresident of Wisconsin to total days in the partnership's taxable year. This results in the following calculation:

Period of residence:	\$3,200 x 91/366	=	\$ 796
Period of nonresidence:	\$3,200 x .7 x 275/366	=	<u>1,683</u>
Total			<u>\$ 2,479</u>

The Wisconsin source amount of the interest income on line 5, column e, is the amount computed for the period of residence. The calculation is:

Period of residence:	\$333 x 91/366	=	\$ 83
Period of nonresidence:			<u>0</u>
Total			<u>\$ 83</u>

Do not fill in line 17a, column e.

The United States government interest income included on line 5, column e, is calculated as follows:

Period of residence:	\$100 x .3333 x 91/366	=	\$ 8
Period of nonresidence:			<u>0</u>
Total			<u>\$ 8</u>

Determining the Wisconsin Income of Multistate Partnerships

A partnership that does business in Wisconsin and at least one other state or foreign country must determine the amount of income attributable to Wisconsin for purposes of figuring (a) its recycling surcharge and (b) a nonresident or part-year resident individual or fiduciary partner's share of partnership income taxable by Wisconsin. The partnership must use either the apportionment method or the separate accounting method to allocate a portion of its income to Wisconsin.

What Is Apportionment

Under the apportionment method, a partnership shows all income and deductions for the partnership as a whole and then assigns a part to Wisconsin according to a formula that determines Wisconsin net income.

Who Must Use Apportionment

A partnership engaged in business in and outside Wisconsin is required to report a portion of its total company net income to Wisconsin using the apportionment method if its Wisconsin operations are a part of a unitary business, unless the Department gives permission to use separate accounting. To use the apportionment method, a partnership must have business activity sufficient to create nexus in Wisconsin and at least one other state or foreign country.

"Nexus" means that a partnership's business activity is of such a degree that the state or foreign country has jurisdiction to impose an income tax or franchise tax measured by net income. Under Public Law 86-272, a state can't impose an income tax or franchise tax based on net income on a partnership selling tangible personal property if the partnership's only activity in the state is the solicitation of orders, which orders are approved outside the state and are filled by delivery from a point outside the state.

What Is a Unitary Business

A unitary business is one that operates as a unit and can't be segregated into independently operating divisions or branches. The operations are integrated, and each division or branch is dependent upon or contributory to the operation of the business as a whole. It isn't necessary that each division or branch operating in Wisconsin contribute to the activities of all divisions or branches outside Wisconsin.

What Is Nonapportionable Income

Nonapportionable income is that income which is allocable directly to a particular state. It includes income or loss derived from the sale of non-business real or tangible personal property or from rentals and royalties from nonbusiness real or tangible personal property. This income is assigned to the state where the property is located.

All income that is realized from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in **Wisconsin** shall be allocated to Wisconsin.

Total nonapportionable income (loss) is removed from total company net income before the apportionment percentage is applied. The Wisconsin nonapportionable income (loss) is then combined with the Wisconsin apportionable income to arrive at Wisconsin net income.

What Is the Apportionment Percentage

For unitary, multistate businesses (except air carriers, motor carriers, railroads and sleeping car companies, pipeline companies, financial organizations, and public utilities whose incomes are apportioned by special rules of the Department), the apportionment percentage is determined by the weighted average of the following three ratios:

1. Wisconsin tangible property to total company (partnership) tangible property.
2. Wisconsin payroll to total company (partnership) payroll.
3. Wisconsin sales to total company (partnership) sales. (This ratio is double-weighted.)

Air carriers, motor carriers, railroads and sleeping car companies, pipeline companies, financial organizations (except insurance companies), and public utilities use special apportionment percentages established for these companies in Wisconsin Administrative Code sections Tax 2.46, 2.47, 2.475, 2.48, 2.49, and 2.50. Professional sports clubs figure their property, payroll, and sales factors under the rules provided in Wisconsin Administrative Code section Tax 2.505. For further information about the special apportionment percentages, contact any Department of Revenue office.

What Is Separate Accounting

Under the separate accounting method, a partnership must keep separate records of the sales, cost of sales, and expenses for the Wisconsin business.

Who Must Use Separate Accounting

A partnership engaged in a nonunitary business in and outside Wisconsin is required to determine the amount of income attributable to Wisconsin by separate accounting. A nonunitary business is one in which the operations in Wisconsin aren't dependent upon or contributory to the operations outside Wisconsin.

A unitary business may use separate accounting only with the approval of the Department. An application for such approval must set forth, in detail, the reasons why separate accounting will more clearly reflect the partnership's Wisconsin net income. It should be mailed to the Wisconsin Department of Revenue, Mail Stop 5-144, P.O. Box 8906, Madison, WI 53708-8906 before the end of the taxable year for which the use of separate accounting is desired.

A partnership that uses separate accounting must complete a schedule similar to Form 4C showing the income attributable to Wisconsin.

Line-by-Line Instructions for Form 4B

■ **Line 1.** Enter all profits and losses from disposals of nonbusiness tangible property in the appropriate column or columns. Such profits and losses are nonapportionable and follow the situs of the property.

Also enter on line 1 all income that is realized from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in **Wisconsin**. This income is nonapportionable and must be allocated to Wisconsin.

■ **Line 2.** Enter rents and royalties received on nonbusiness tangible property in the appropriate column or columns. These are nonapportionable and follow the situs of the property.

■ **Line 3.** Enter any expenses that are directly or indirectly related to rents and royalties reported on line 2. Since such income is nonapportionable, the related expenses are nonapportionable.

■ **Line 5.** Enter the total net nonapportionable income or loss for both Wisconsin and the total company.

■ **Lines 6 through 13.** Enter the undepreciated original cost of tangible property owned and used in producing apportionable income at the beginning and at the end of the taxable year. Group the property into the general categories listed for both Wisconsin and the total company.

Don't include construction in progress, idle property, or property used in producing nonapportionable income. Such property isn't used in the production of apportionable income and, therefore, isn't includable in the property factor.

Note: If any major acquisitions or dispositions occurred within the taxable year, the average monthly balances of property may be used (or required by the Department) instead of the average of the beginning and ending balance. In this case, attach a separate schedule showing the calculation rather than completing lines 6 through 13.

■ **Line 14.** Add lines 13a and 13b for Wisconsin property and for total company property, and divide each of these totals by 2. This is the average owned property for Wisconsin and the total company.

■ **Line 15.** Multiply the net annual rental for property used in the production of apportionable income by 8 and enter the result. "Net annual rental" is the annual rental paid less any annual rental received from subrentals unless this results in a negative or clearly inaccurate valuation. Net annual rental doesn't include incidental day-to-day expenses such as hotel or motel accommodations, daily rentals of autos, or royalties based on extraction of natural resources.

If the taxable year covers a period of less than 12 months, the net rent paid for the short period must be annualized. However, if the rental term is for less than 12 months, the rent must be adjusted accordingly.

Leases are given the same treatment in computing the property factor as they are in computing net income. Leases that have been capitalized in computing net income are included as property owned and used for property factor purposes. All other lease payments are included in the rentals times 8 computation.

■ **Line 16.** Enter the total Wisconsin and total company property. Divide the Wisconsin property by the total company property and enter the percentage.

■ **Line 17.** Enter, for Wisconsin and the total company, the compensation paid to the company's own employees for the performance of personal services. The compensation must be related to the production of apportionable income. Compensation related to the operation, maintenance, protection, or supervision of property used in the production of both apportionable and nonapportionable income or losses must be prorated, and only the portion related to the production of apportionable income is included for Wisconsin and the total company. Compensation includes wages, salaries, commissions, and any other form of remuneration paid to employees.

Compensation is paid in Wisconsin (included in the numerator of the payroll factor) if –

- The individual's service is performed entirely in Wisconsin.
- The individual's service is performed in and outside Wisconsin, but the service performed outside Wisconsin is incidental to the individual's service in Wisconsin.
- A portion of the service is performed in Wisconsin and the base of operations of the individual is in Wisconsin.

Line-by-Line Instructions (continued)

- A portion of the service is performed in Wisconsin and, if there is no base of operations, the place from which the individual's service is directed or controlled is in Wisconsin.
- A portion of the service is performed in Wisconsin and neither the base of operations of the individual nor the place from which the service is directed or controlled is in any state in which some part of the service is performed, but the individual's residence is in Wisconsin.
- The individual is neither a resident of nor performs services in Wisconsin but is directed or controlled from an office in Wisconsin and returns to Wisconsin periodically for business purposes and the state in which the individual resides doesn't have jurisdiction to impose franchise or income taxes on the employer.

An individual is considered to be performing a service in Wisconsin during the year if that individual spends any portion of at least 5 days during the partnership's taxable year in Wisconsin performing services.

■ **Line 18.** Enter management or service fees paid to a related corporation for the performance of personal services. The fees must be related to the production of apportionable income. Payments made to independent contractors aren't includable.

■ **Line 19.** Enter the total Wisconsin and total company payroll. Divide the Wisconsin payroll by the total company payroll and enter the percentage.

■ **Lines 20 through 25.** For purposes of the sales factor, sales include, but aren't limited to, the following items related to the production of business income:

- Gross receipts from the sale of inventory.
- Gross receipts from the operation of farms, mines, and quarries.
- Gross receipts from the sale of scrap or by-products.
- Gross commissions.
- Gross receipts from personal and other services.
- Gross rents from real property or tangible personal property.
- Interest on trade accounts and trade notes receivable.
- A partner's share of the partnership's gross receipts or a member's share of the limited liability company's gross receipts.
- Gross management fees.
- Gross royalties from income producing activities.
- Gross franchise fees from income producing activities.

"Gross receipts" means gross sales less returns and allowances, plus service charges, freight, carrying charges, or time-price differential charges incidental to the sales. Federal and state excise taxes, including sales and use taxes, are included as part of the receipts if the taxes are passed on to the buyer or included as part of the selling price of the product.

The following items are among those not included for sales factor purposes:

- Gross receipts and gain or loss from the sale of tangible business assets, except receipts from the sale of inventory, scrap, or by-products or from the operation of a farm, mine, or quarry.
- Gross receipts and gain or loss from the sale of nonbusiness real or tangible personal property.
- Gross rents and rental income or loss from real property or tangible personal property if that real property or tangible personal property isn't used in the production of business income.

- Royalties from nonbusiness real property or nonbusiness tangible personal property.
- Proceeds and gain or loss from the redemption of securities.
- Interest, except interest on trade accounts and trade notes receivable, and dividends.
- Gross receipts and gain or loss from the sale of intangible assets, except inventory.
- Dividends deductible in determining net income.
- Gross receipts and gain or loss from the sale of securities.
- Proceeds and gain or loss from the sale of receivables.
- Refunds, rebates, and recoveries of amounts previously expended or deducted.
- Foreign exchange gain or loss.
- Royalties and income from passive investments in patents, copyrights, trademarks, trade names, plans, specifications, blueprints, processes, techniques, formulas, designs, layouts, patterns, drawings, manuals, and technical know-how.
- Pari-mutuel wager winnings and purses.
- Other items not includable in apportionable income.

Enter on lines 20a and 20b the appropriate Wisconsin destination sales. Gross receipts from the sales of tangible personal property, except sales to the federal government, are Wisconsin sales if the property is delivered or shipped to a purchaser in Wisconsin. Sales of tangible personal property picked up by the purchaser, or the purchaser's agent, at the seller's Wisconsin business location and immediately transported to the purchaser's out-of-state business location aren't Wisconsin sales. However, if the seller doesn't have nexus with the state in which the purchaser's business is located, the sales are "thrown back" to Wisconsin as discussed later. Wisconsin sales include sales of tangible personal property that are picked up by the purchaser, or the purchaser's agent, at the seller's out-of-state business location and immediately transported to the purchaser's Wisconsin business location.

Enter on line 21a sales of tangible personal property delivered to the federal government, including its agencies and instrumentalities, in Wisconsin if the property is shipped from an office, store, warehouse, factory, or other place of storage in Wisconsin. Sales to federal government locations in Wisconsin, which are shipped from an office, store, warehouse, factory, or other place of storage outside Wisconsin, aren't Wisconsin sales.

Enter on line 21b sales of tangible personal property delivered to the federal government, including its agencies and instrumentalities, outside Wisconsin if the property is shipped from an office, store, warehouse, factory, or other place of storage in Wisconsin and the seller doesn't have nexus in the destination state. These sales are included in the numerator of the sales factor at 50%.

Enter on line 21c sales, other than sales to the federal government, that are "thrown back" to Wisconsin. These are sales of tangible personal property shipped from an office, store, warehouse, factory, or other place of storage in Wisconsin to a state in which the seller doesn't have nexus. "Throwback" sales are included in the numerator of the sales factor at 50%.

Enter on line 22 the "double throwback" sales. These are sales, other than sales to the federal government, of tangible personal property by an office in Wisconsin to a purchaser in another state, but not shipped or delivered from Wisconsin, if the taxpayer doesn't have nexus in (1) the state from which the property is delivered or shipped, or (2) the destination state. "Double throwback" sales are included in the numerator of the sales factor at 50%.

Note: For purposes of throwback sales and double throwback sales, “state” means any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, and any territory or possession of the United States. A foreign country isn’t a state.

Enter on line 23 the total sales for Wisconsin (sum of lines 20a through 22) and the total company.

Enter on line 24, for both Wisconsin and the total company, gross receipts of apportionable income, other than sales of tangible personal property, that are includable in the sales factor.

Gross receipts are attributable to Wisconsin if the income producing activity that gives rise to the receipts is performed in Wisconsin. If the income producing activity is performed partly in and partly outside Wisconsin, assign receipts to Wisconsin based on the ratio of direct costs of performing the services in Wisconsin to the direct costs of performing the services in all states having jurisdiction to tax the business.

■ **Line 26.** Divide the Wisconsin amount on line 25 by the total company amount on line 25 and enter the sales percentage on line 26. Also multiply the percentage by 2, as indicated, and enter the double-weighted sales percentage.

■ **Line 28.** Divide the percentage on line 27 by 4 and enter the resulting percentage here and on Schedule 3K-1, item P, and Form 3S, line 3.

Don’t divide the percentage on line 27 by 4 if a factor has been eliminated. A factor may be eliminated if it isn’t employed to any appreciable extent in producing apportionable income. If a factor is omitted, the total must be divided by no more than the number of factors used. If either the property or payroll factor is omitted, divide by 3. If the sales factor is omitted, divide by 2. Don’t omit a factor simply because it isn’t employed in Wisconsin.

■ **Lines 29 through 33.** Air carriers, motor carriers, railroads and sleeping car companies, pipeline companies, financial organizations, and public utilities that apportion their income must complete lines 29 through 33, as appropriate.

Form UT-5 – Consumer Use Tax Return

Who Must File

The state, county, and baseball and football stadium use taxes are payable directly to the state by the purchaser (consumer) when tangible personal property or taxable services are purchased from a retailer who

does not or is not authorized to collect the 5% Wisconsin, 0.5% county, 0.1% baseball stadium, or 0.5% football stadium sales and use tax. Complete Form UT-5 to report use tax if –

- You do not hold a seller’s permit, use tax certificate, or consumer’s use tax certificate, and
- You infrequently purchase or lease property or services subject to use tax.

If you hold a seller’s permit, use tax certificate, or consumer’s use tax certificate, do not use Form UT-5. Instead, report your use tax on your sales and use tax return, Form ST-12.

If you regularly make purchases subject to use tax, you should obtain a consumer’s use tax certificate to report use tax for future years. However, for the current year or prior years, complete Form UT-5 to report your use tax owed. Contact any Department of Revenue office for an Application for Business Tax Registration, Form BTR-101, or download the application from the Department’s web site at www.dor.state.wi.us.

What Is Use Tax?

Use tax is the counterpart of sales tax. It must be paid by persons who bring taxable items into Wisconsin or make taxable purchases from retailers who do not collect Wisconsin sales tax.

What Is Taxable?

All tangible personal property and selected services, taxable under Wisconsin’s sales tax law, which are stored, used, or consumed in Wisconsin, are subject to use tax if the proper sales tax is not paid.

Following are examples of purchases that frequently result in a use tax liability:

- Mail order and Internet purchases. You owe Wisconsin use tax if you buy such items as computers, furniture, or office supplies from a vendor who is not registered to collect Wisconsin tax.
- Inventory. If you purchase inventory items without tax for resale, and then use these items instead of selling them, you owe use tax.
- Give-aways. Generally, if you purchase items without tax and then give them away in Wisconsin, you owe use tax.

Any Questions?

If you have any questions about your use tax return, contact any Department of Revenue office, write to the Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8902, Madison, WI 53708-8902, call (608) 266-2776, or e-mail sales10@dor.state.wi.us.