Instructions for Completing Wisconsin Schedule I – 2005

INTRODUCTION – Generally, the Wisconsin Statutes require that the computation of taxable income on the 2005 Wisconsin income tax return is to be based on the Internal Revenue Code enacted as of December 31, 2004. Changes made to the Internal Revenue Code enacted after December 31, 2004, do not apply for Wisconsin income tax purposes.

Wisconsin law also provides that certain provisions of federal law do not apply for Wisconsin purposes (even though the provisions were enacted into federal law prior to December 31, 2004). Some of those provisions are:

- Exclusion for small business stock
- Treatment of extraterritorial income
- Expensing of environmental remediation costs
- Deduction for tuition and fees
- Bonus depreciation
- Treatment of qualified leasehold improvement property
- Installment method for accrual basis taxpayers

As a result, certain income and deduction items may be different for Wisconsin and federal purposes. Any difference must be adjusted on this schedule. A description of items requiring adjustment can be found under ITEMS REQUIRING ADJUSTMENT.

WHO MUST FILE – If the computation of your federal adjusted gross income or itemized deductions reflects any of the differences in Wisconsin and federal law for 2005, you must complete this schedule and attach it to your Wisconsin income tax return, Form 1 or Form 1NPR.

To the extent Schedule I adjustments in a prior year affect income or expense items in 2005 (for example, the special 30% depreciation allowance was not allowed to be claimed on property placed in service after September 10, 2001), you must also make adjustments on Schedule I for 2005.

It also may be necessary to prepare a 2005 Schedule I to adjust the amount of gain or loss reportable from sales of certain assets during 2005. See the instructions for lines 2 and 3 under SPECIFIC INSTRUCTIONS.

PARTNERS, BENEFICIARIES OF ESTATES AND TRUSTS, AND SHAREHOLDERS OF TAX-OPTION (S) CORPORATIONS – The income and deduction items computed on the Wisconsin returns of partnerships, estates and trusts, and tax-option (S) corporations may also be affected by the differences between Wisconsin and federal law for 2005. As a result, the distributive shares of these items which are reportable on the individual Wisconsin income tax returns of the respective partners, beneficiaries, and shareholders may differ for Wisconsin and federal income tax purposes. Such partners, beneficiaries, and shareholders should receive notification from the partnership, estate or trust, or tax-option (S) corporation of the amounts reportable for Wisconsin purposes. By comparing the amounts reportable for Wisconsin and federal purposes, the partner, beneficiary, or shareholder should determine the items which differ and make the appropriate adjustments.

SPECIFIC INSTRUCTIONS

(Numbered to correspond with the line numbers on Schedule I)

INSTRUCTIONS FOR PART I

1. Fill in your 2005 federal adjusted gross income from line 37 of your federal Form 1040 (line 21 of Form 1040A if you claimed the tuition and fees deduction on that form).

2 & 3. If you sold or otherwise disposed of certain property during 2005, the gain or loss reportable from such sale may differ for Wisconsin and federal purposes due to Schedule I adjustments made in the current year or a prior year. This would occur, for example, when different rates of depreciation or amortization were allowable for Wisconsin and federal purposes in 1975 or thereafter.

To properly report such gain or loss on your Wisconsin return, you must first remove all gain or loss included in your federal adjusted gross income. This is done by filling in line 2a or 2b and/or line 3a or 3b. Then fill in the revised gain or loss on line 2c and/or line 3c. Attach a revised federal Schedule D, Form 4684, or Form 4797 marked "Revised for Wisconsin purposes" to Form 1 or Form 1NPR.

Do not complete lines 2 and 3 if you did not make Schedule I adjustments in the current year or a prior year for the property you sold or otherwise disposed of during 2005.

5. Complete line 5 to make all other adjustments needed to convert 2005 federal adjusted gross income to the amount allowable for Wisconsin. See the listing under Section A of ITEMS REQUIRING ADJUSTMENT.

When an adjustment is made on line 2, 3, or 5, this may affect other amounts which must then also be adjusted. For example, the amount of social security includable in federal adjusted gross income may be affected when an adjustment is made to an income item. The adjustment to social security includable in federal adjusted gross income should be reported on line 5.

When completing line 5, if you are adjusting an expense item (for example, depreciation or amounts claimed as Adjustments to Income on lines 23 through 35 of federal Form 1040), fill in the amounts in Col. I and Col. II as negative numbers. Put parentheses around the amounts to show negative numbers.

If you are adjusting an income item, fill in the amounts in Col. I and Col. II as positive numbers.

Complete Col. III as follows:

- If the amounts in Col. I and Col. II are positive numbers (or one number is a positive number and the other number is zero) and the amount in Col. II is larger than the amount in Col. I, subtract Col. I from Col. II. Fill in the difference in Col. III.
- If the amounts in Col. I and Col. II are positive numbers (or one number is a positive number and the other number is zero) and the amount in Col. I is larger than the amount in Col. II, subtract Col. II from Col. I. Fill in the difference as a negative number in Col. III.
- If the amounts in Col. I and Col. II are negative numbers (or one number is a negative number and the other number is zero) and the amount in Col. II is larger than the amount in Col. I, subtract Col. I from Col. II. Fill in the difference as a negative number in Col. III. Treat both amounts as if they were positive numbers when figuring which amount is larger and when subtracting the amounts in Col. I and Col. II.
- If the amounts in Col. I and Col. II are negative numbers (or one number is a negative number and the other number is zero) and the amount in Col. I is larger than the amount in Col. II, subtract Col. II from Col. I. Fill in the difference as a positive number in Col. III. Treat both amounts as if they were positive numbers when figuring which amount is larger and when subtracting the amounts in Col. I and Col. II.

6. The amount on line 6 is your recomputed federal adjusted gross income based on the Internal Revenue Code in effect for Wisconsin for 2005. This amount is the starting point for determining Wisconsin taxable income on Form 1.

INSTRUCTIONS FOR PART II

7. Whenever federal adjusted gross income has been increased or decreased in Part I of Schedule I, itemized deductions which are computed using federal adjusted gross income (for example, medical expenses and charitable contributions) may require adjustment. The deductible amounts of any such items used to compute the Wisconsin itemized deduction credit must be determined by using the federal adjusted gross income computed on line 6 of Part I.

See the listing under Section B of ITEMS REQUIRING ADJUSTMENT for other itemized deductions that require adjustment.

ITEMS REQUIRING ADJUSTMENT

Following are brief explanations of differences between federal and Wisconsin law which were known at the time this form was printed (December 3, 2005).

The "Federal" explanation indicates how an item is to be treated for federal income tax purposes as of December 31, 2005. The "Wisconsin" explanation indicates how the item is to be treated for Wisconsin purposes.

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

CAUTION At the time these instructions were printed, Congress was scheduled to return in December 2005 to consider further legislation, and that further legislation could affect the taxable year 2005. Federal law changes enacted after December 31, 2004, do not apply for Wisconsin purposes for 2005 unless retroactively adopted by the Wisconsin Legislature.

If federal law changes are enacted which affect 2005 tax returns, you may obtain information on the Wisconsin treatment of such changes from any Wisconsin Department of Revenue office.

A. ITEMS AFFECTING THE COMPUTATION OF FEDERAL ADJUSTED GROSS INCOME

1. Small Business Stock

(a) Federal – An exclusion is allowed for 50% of the gain from the sale or exchange of qualified small business stock issued after August 10, 1993, and held for more than five years. (Public Law 103-66)

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

2. Treatment of Extraterritorial Income

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

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

3. Deduction for Tuition and Fees

(a) Federal – A deduction is allowed for up to $4,000 of qualified tuition and fees paid during the taxable year in connection with enrollment at an institute of higher education. (Public Law 107-16)

(b) Wisconsin – The federal deduction for up to $4,000 of qualified tuition and fees does not apply for Wisconsin. (**Note** Although the federal deduction for tuition and fees cannot be claimed for Wisconsin, you may qualify for a tuition deduction provided by Wisconsin law. If you claimed the federal tuition and fees deduction, you must complete Schedule I to remove the federal deduction. See page 11 of the Form 1 instructions (page 16 of Form 1NPR instructions) for more information on the Wisconsin deduction for tuition paid.)

4. Installment Method for Accrual Basis Taxpayers

(a) Federal – Accrual basis taxpayers may report income from an installment sale under the installment method. (Public Law 106-573)

(b) Wisconsin – Accrual basis taxpayers cannot use the installment method for reporting sales and other dispositions. Gain from the sale of property must be recognized in the year of the sale, rather than when payments are received. This does not apply to dispositions of property used or produced in farming or for certain dispositions of timeshares or residential lots.

5. Increase in Section 179 Expensing

(a) Federal – For taxable years beginning in 2005, the amount that may be expensed under sec. 179, Internal Revenue Code, is $105,000. The phase-out threshold is $420,000. Off-the-shelf computer software is considered qualifying property. (Public Law 108-357)

(b) Wisconsin – The amount that may be expensed under sec. 179 is limited to $25,000. The phase-out threshold is $200,000.

6. Health Savings Accounts

(a) Federal – Certain individuals may establish health savings accounts. A deduction is allowed for contributions to the account. Amounts contributed by an employer to an employee's account are excluded from the employee's gross income. (Public Law 108-173)

(b) Wisconsin – The federal provisions relating to health savings accounts do not apply. For example:
1) a deduction is not allowed for the amount paid to a health savings account,
2) earnings on the health savings account are subject to Wisconsin income tax,
3) amounts distributed from the account are not subject to Wisconsin income tax,
4) rollovers from Archer Medical Savings Accounts result in a taxable transaction, and
5) the amounts contributed by an employer (or contributed pre-tax for federal purposes by an employee) are taxable wages to the employee.

7. Environmental Remediation Costs

(a) Federal – The provision allowing the expensing of environmental remediation costs is extended through December 31, 2005. (Public Law 108-311)

(b) Wisconsin – A taxpayer may not elect to treat environmental remediation costs as an expense which is not chargeable to capital account.

8. Depreciation or Amortization

(a) Federal – Depreciation or amortization is determined under the provisions of the Internal Revenue Code in effect for federal tax purposes.

(b) Wisconsin – Depreciation or amortization is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000. For example, the federal provisions relating to thirty percent and fifty percent bonus depreciation do not apply for Wisconsin.

9. Film and Television Productions

(a) Federal – A taxpayer may elect to treat the cost of any qualified film or television production as an expense which is not chargeable to capital account. (Public Law 108-357)

(b) Wisconsin – The treatment of a film or television production is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

10. Modification of Placed in Service Rule for Bonus Depreciation Property

(a) Federal – In the case of multiple units of property subject to the same lease, property will qualify as placed in service on the date of sale if it is sold within three months after the final unit is placed in service, so long as the period between the time the first and last units are placed in service does not exceed 12 months. (Public Law 108-357)

(b) Wisconsin – The special rule for multiple units of property subject to the same lease does not apply for Wisconsin.

11. Dispositions of Transmission Property to Implement Federal Regulatory Commission or State Electric Restructuring

(a) Federal – Taxpayers may elect to recognize gain from qualifying electric transmission transactions ratably over an eight-year period if the amount realized is used to purchase exempt utility property. (Public Law 108-357)

(b) Wisconsin – Gain is recognized to the extent the sales price (and any other consideration received) exceeds the seller's basis in the property, unless the gain is deferred or not recognized under a special tax provision.

12. Treatment of Disaster Mitigation Grants

(a) Federal – Federal Emergency Management Agency (FEMA) disaster mitigation grants to or for the benefit of the owner of property for hazard mitigation are exempt from taxation. (Public Law 109-7)

(b) Wisconsin – FEMA disaster mitigation grants are subject to Wisconsin income tax.

13. Electric Transmission Property

(a) Federal – For property placed in service after April 11, 2005, depreciable property used in the transmission of 69 or more kilovolts of electricity for sale is 15-year property for MACRS purposes and is assigned a 30-year class life for purposes of the alternative depreciation system. (Public Law 109-58)

(b) Wisconsin – Depreciation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

14. Amortization for Certain Atmospheric Pollution Control Facilities

(a) Federal – For facilities placed in service after April 11, 2005, the amortization period is 84 months for certified air pollution facilities used in connection with an electric generation plan which was not in operation before January 1, 1976. (Public Law 109-58)

(b) Wisconsin – Amortization is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

15. Expensing for Equipment Used in Refining of Liquid Fuels

(a) Federal – For qualifying refineries placed in service after August 8, 2005, an election is available to treat 50% of the cost of any qualified refinery property as an expense. (Public Law 109-58)

(b) Wisconsin – The election to treat 50% of the cost of any qualified refinery property as an expense is not available.

16. Natural Gas Distribution Lines Treated as 15-Year Property

(a) Federal – For property placed in service after April 11, 2005, there is a 15-year recovery period for MACRS and a 35-year class life for purposes of the alternative depreciation system for natural gas distribution lines. (Public Law 109-58)

(b) Wisconsin – Depreciation for natural gas distribution lines is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

17. Natural Gas Gathering Lines Treated as 7-Year Property

(a) Federal – For property placed in service after April 11, 2005, there is a 7-year recovery period for MACRS and a class life of 14 years for the alternative depreciation system for natural gas gathering lines. (Public Law 109-58)

(b) Wisconsin – Depreciation for natural gas gathering lines is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

18. Small Refiner Exception to Oil Depletion Deduction

(a) Federal – For purposes of the small refiner exception to the oil depletion deduction, the current 50,000-barrel-per-day limitation is increased to 75,000. The refinery limitation on claiming independent producer status is based on average daily production for the taxable year. (Public Law 109-58)

(b) Wisconsin – The treatment of the oil depletion deduction is determined under the provisions of the Internal Revenue Code in effect on December 31, 2004.

19. Amortization of Geological and Geophysical Expenditures

(a) Federal – Effective for amounts paid or incurred in taxable years beginning after August 8, 2005, amortization of geological and geophysical expenditures is allowed as a deduction ratably over a 24-month period using the half-year convention. (Public Law 109-58)

(b) Wisconsin – The amortization of geological and geophysical expenditures is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

20. Energy Efficient Commercial Buildings Deduction

(a) Federal – Effective for property placed in service after December 31, 2005, a formula-based deduction is allowed equal to the energy-efficient commercial building property expenditures made if the expenditures reduce the energy and power consumption of a commercial building by 50% (Public Law 109-58)

(b) Wisconsin – The treatment of energy-efficient commercial building property expenditures is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

21. Termination of Deduction for Clean-Fuel Vehicles and Certain Refueling Property

(a) Federal – The deduction for clean-fuel vehicles and certain refueling property terminates for property placed in service after December 31, 2005. (Public Law 109-58)

(b) Wisconsin – The deduction for clean-fuel vehicles and certain refueling property terminates for property placed in service after December 31, 2006.

22. Recapture of Section 197 Amortization

(a) Federal – For dispositions of property after August 8, 2005, if multiple sec. 197 intangibles are sold or otherwise disposed of in a single transaction or a series of related transactions, the seller must calculate recapture as if all of the sec. 197 intangibles were a single asset. (Public Law 109-58)

(b) Wisconsin – The treatment of the sale or other disposition of sec. 197 intangibles is determined under the provisions of the Internal Revenue Code in effect on December 31, 2004.

23. Tax-Favored Withdrawals from Retirement Plans for Hurricane Katrina Relief

(a) Federal – For distributions on or after August 25, 2005, Hurricane Katrina victims may withdraw up to $100,000 from an IRA or eligible retirement plan without penalty. Taxpayers who are able to repay the distributions have three years to repay the funds to qualify for rollover treatment. Otherwise, they will be taxed on their distribution over three years. (Public Law 109-73)

(b) Wisconsin – Early distributions from an IRA or other retirement plan are included in Wisconsin gross income and are subject to a penalty.

24. Recontributions of Withdrawals for Home Purchases

(a) Federal – Taxpayers who withdrew funds from an IRA or other eligible retirement plan after February 28, 2005, for a first-time home purchase, but who could not complete that purchase because of Hurricane Katrina, may put the funds back in their IRA or other eligible retirement plan without penalty. (Public Law 109-73)

(b) Wisconsin – The treatment of contributions to an IRA or other retirement plan is determined under the provisions of the Internal Revenue Code as amended to December 31, 2004.

25. Loans from Qualified Plans

(a) Federal – For loans made after September 22, 2005, Hurricane Katrina victims can borrow up to $100,000 from a qualified employer plan. Any required payment due date for outstanding loans may be delayed. (Public Law 109-73)

(b) Wisconsin – The maximum amount that may be borrowed from a qualified employer plan is $50,000. The treatment of loans is determined under the provisions of the Internal Revenue Code as amended to December 31, 2004.

26. Exemption for Housing Hurricane Katrina Displaced Individuals

(a) Federal – Individuals who use their principal residence to provide housing free of charge to certain Hurricane Katrina displaced individuals for at least 60 consecutive days may claim a special $500 deduction for each evacuee residing in the taxpayer's home (maximum deduction $2,000). (Public Law 109-73)

(b) Wisconsin – The exemption for housing Hurricane Katrina displaced individuals does not apply for Wisconsin tax purposes.

27. Mileage Reimbursements to Charitable Volunteers Excluded From Gross Income

(a) Federal – Reimbursement received by a volunteer from a sec. 170(c) organization for use of a passenger automobile in connection with providing relief to Hurricane Katrina victims is excluded from income up to the amount that equals the full standard business mileage rate. (Public Law 109-73)

(b) Wisconsin – Mileage reimbursements for charitable use of an automobile are included in Wisconsin income to the extent the reimbursement exceeds expenses or 14¢ per mile.

28. Charitable Deduction for Contributions of Food Inventory

(a) Federal – Charitable contributions of food inventory by a trade or business made between August 28, 2005, and December 31, 2005, are not subject to the usual sec. 170(e) limitations on contributions of ordinary income property. (Public Law 109-73)

(b) Wisconsin – Charitable contributions of food inventory by a trade or business are determined under the provisions of the Internal Revenue Code as amended to December 31, 2004.

29. Cancellation of Indebtedness Income

(a) Federal – For discharges on or after August 25, 2005, individuals may exclude from gross income discharge of indebtedness income when such indebtedness is discharged in response to damage from Hurricane Katrina. (Public Law 109-73)

(b) Wisconsin – Income from discharge of indebtedness is generally taxable as provided under the provisions of the Internal Revenue Code as amended to December 31, 2004.

30. Replacement Period for Nonrecognition of Gain

(a) Federal – In the case of an involuntary conversion on or after August 25, 2005, the replacement period is extended to five years for property damaged by Hurricane Katrina. (Public Law 109-73)

(b) Wisconsin – The replacement period for involuntarily converted property is four years for the personal residence of an individual whose principal place of business is located within a Presidentially-declared disaster area and two years for business property.

B. ITEMS AFFECTING THE COMPUTATION OF ITEMIZED DEDUCTIONS

1. Medical Expense Deduction

(a) Federal – Any payment or distribution out of a health savings account for qualified medical expenses shall not be treated as an expense paid for medical care for purposes of claiming an itemized deduction for medical and dental expenses. (Public Law 108-173)

(b) Wisconsin – Payments or distributions out of a health savings account that are used for qualified medical expenses are an allowable itemized deduction.

2. Charitable Contributions for Tsunami Victims

(a) Federal – Contributions made in January 2005 for the relief of victims in areas affected by the December 26, 2004, Indian Ocean tsunami may be treated as if made on December 31, 2004. (Public Law 109-1)

(b) Wisconsin – Charitable contributions made in January 2005 are deductible on 2005 Schedule A and may be used for the 2005 Wisconsin itemized deduction credit.

3. Suspension of Limitations on Charitable Contributions

(a) Federal – Qualified cash contributions to certain charitable organizations made from August 28, 2005, through December 31, 2005, are not subject to the 50% limitation. (Public Law 109-73)

(b) Wisconsin – Contributions to tax-exempt charitable organizations are limited to 50% of the taxpayer's adjusted gross income.

4. Standard Mileage Rate for Charitable Use of Vehicle

(a) Federal – Effective August 25, 2005, the standard mileage rate for charity work related to Hurricane Katrina is 70% of the standard business mileage rate. The new rate is 29 cents-per-mile during the period of August 25, 2005, through August 31, 2005, and 34 cents-per-mile from September 1 to the end of the year. (Public Law 109-73)

(b) Wisconsin – The standard mileage rate for charitable use of a vehicle is 14 cents-per-mile.