Instructions for 2005 Schedule DC

Item to Note

For taxable years beginning on or after January 1, 2005, a claimant may claim the development zone, opportunity zone, enterprise zone, and agricultural development zone credits against the franchise or income taxes imposed on all of the claimant's income. This treatment also applies to unused credits carried forward from prior years. The credits may not offset the recycling surcharge.

Purpose of Schedule DC

Use Schedule DC to claim the special tax credits that may be available for persons doing business in Wisconsin development, development opportunity, enterprise development, or agricultural development zones.

The Wisconsin Department of Commerce administers the development zones programs. To participate in one of these programs, businesses must first be certified by the Department of Commerce. For more information regarding eligibility in the Wisconsin development zones programs, visit the Department of Commerce web site at www.commerce.wi.gov/CD/CD-bed.html or write to the Wisconsin Department of Commerce, P.O. Box 7970, Madison, WI 53707-7970.

Who Is Eligible to Claim the Credits

Any individual, estate, trust, partnership, limited liability company (LLC), corporation, or tax-exempt organization that is conducting business in a development zone and has been certified by the Department of Commerce may be eligible for the credits.

Partnerships, LLCs treated as partnerships, and tax-option (S) corporations cannot claim the credits, but the credits attributable to the entity's business operations pass through to the partners, members, or shareholders.

How to Claim the Credits

You claim the credits by completing Schedule DC and entering the amounts on the Wisconsin franchise or income tax return that you file. You must attach Schedule DC to your tax return. In addition, you must attach a copy of your certification to claim tax benefits and the verification of your expenses, which you obtain from the Department of Commerce. Shareholders of tax-option (S) corporations, partners of partnerships, members of LLCs treated as partnerships, and beneficiaries of estates or trusts attach a copy of Schedule 5K-1, 3K-1, or 2K-1, as appropriate, to Schedule DC instead of the certification to claim tax benefits and verification of expenses.

Individuals, Estates, and Trusts – Order for Claiming Tax Credits

Individuals, estates, and trusts must claim business tax credits in the following order:

1. Manufacturer's sales tax credit (see Schedule MS).
2. Dairy investment credit (see Schedule DI).
3. Carryover of pre-1998 development zones jobs credit.
4. Carryover of pre-1998 development zones sales tax credit.
5. Development opportunity zone investment credit.
6. Carryover of pre-1998 development zones investment credit.
7. Carryover of pre-1998 development zones research credit.
8. Carryover of pre-1998 development zones location credit.
9. Development opportunity zone or agricultural development zone capital investment credit.
10. Technology zone credit (see Schedule TC).
11. Carryover of pre-1998 development zones day care credit.
12. Carryover of pre-1998 development zones environmental remediation credit.
13. Development zones credit.
14. Early stage seed investment credit (see Schedule VC).
15. Angel investment credit (see Schedule VC).

Corporations - Order for Claiming Tax Credits

Corporations must claim business tax credits in the following order:

1. Manufacturer's sales tax credit (see Schedule Z).
2. Dairy investment credit (see Schedule DI).
3. Research credits (see Schedule R).
4. Carryover of pre-1998 development zones research credit.
5. Community development finance credit (see Schedule C1).
6. Carryover of pre-1998 development zones jobs credit.
7. Carryover of pre-1998 development zones sales tax credit.
8. Development opportunity zone investment credit.
9. Carryover of pre-1998 development zones investment credit.
10. Carryover of pre-1998 development zones location credit.
11. Development opportunity zone or agricultural development zone capital investment credit.
12. Carryover of pre-1998 development zones day care credit.
13. Carryover of pre-1998 development zones environmental remediation credit.
14. Development zones credit.
15. Technology zone credit (see Schedule TC).
16. Early stage seed investment credit (see Schedule VC).
17. Supplement to federal historic rehabilitation tax credit (see Schedule HR).

Credits Are Income

The credits that you compute on Schedule DC are income and must be reported on your Wisconsin franchise or income tax return in the year computed. This is true even if you cannot use the full amount of a credit computed this year to offset tax liability for this year and must carry part or all of it forward to future years.

Carryover of Unused Credits

The development zones credits are nonrefundable. Any unused credits may be carried forward for 15 years, with certain exceptions.

If you cease business operations in the development zone during the taxable year, you may not carry over to future taxable years any unused credits from the taxable year during which operations cease or from previous taxable years. If your certification to claim tax benefits is revoked, you may not claim any credits for the taxable year in which your benefits are revoked nor may you carry over unused credits from previous years.

If there is a reorganization of a corporation claiming a development zones credit, the limitations provided by Internal Revenue Code (IRC) section 383 may apply to the carryover of any unused Wisconsin development zones credits.

Additional Information

For more information, you may:

- E-mail your question to corp@dor.state.wi.us
- Send a FAX to (608) 267-0834
- Call (608) 266-2772 [TTY (608) 267-1049]
- Write to the Audit Bureau, Wisconsin Department of Revenue, Mail Stop 5-144, P.O. Box 8906, Madison, WI 53708-8906

Part I – Development Zones Credit

General Instructions

The development zones credit is the total of the following amounts:

A. 50% of the amount spent for environmental remediation in a development zone.

Environmental remediation means:

- removal or containment of environmental pollution,
- restoration of soil or groundwater that is affected by environmental pollution in a brownfield, and
- investigation, unless the investigation determines that remediation is required and that remediation is not undertaken.

The removal, containment, or restoration work, other than planning and investigating, must be begun after the area that includes the site where the work is being done is designated a development zone and after the claimant is certified for tax benefits.

Environmental pollution means the contaminating or rendering unclean or impure the air, land, or waters of the development zone, or making it injurious to public health, harmful for commercial or recreational use, or deleterious to fish, bird, animal, or plant life.

Brownfield means an industrial or commercial facility the expansion or redevelopment of which is complicated by environmental contamination.

B. The total of the following amounts allowed by the Department of Commerce for job creation or retention:

- The dollar amount, up to $8,000, multiplied by the number of full-time jobs created in a development zone and filled by a member of a targeted group.
- The dollar amount, up to $6,000, multiplied by the number of full-time jobs created in a development zone and not filled by a member of a targeted group.
- The dollar amount, up to $8,000, multiplied by the number of full-time jobs retained in an enterprise development zone under sec. 560.797, Wis. Stats., excluding jobs for which the former Wisconsin jobs credit has been claimed, and for which a significant capital investment was made.
- The dollar amount, up to $6,000, multiplied by the number of full-time jobs retained in a development zone, excluding jobs for which the former Wisconsin jobs credit has been claimed, and not filled by a member of a targeted group.

The above dollar amounts must be reduced by wage subsidies the employer receives under the Wisconsin Works trial job program for those jobs.

Full-time job means a regular, nonseasonal full-time position in which an individual must work at least 2,080 hours per year, including paid leave and holidays. The individual must receive pay that is equal to at least 150% of the federal minimum wage and benefits that are not required by federal or state law. A full-time job does not include training before an employment position begins.

Member of a targeted group means a Wisconsin resident who is certified as a member of one of the following groups by a Jobs Service office of the Wisconsin Department of Workforce Development:

- A person who resides in an area designated by the federal government as an economic revitalization area.
- A person who is employed in an unsubsidized job but meets the eligibility requirements under sec. 49.145(2) or (3), Wis. Stats., for a Wisconsin Works employment position.
- A person who is employed in a trial job, as defined in sec. 49.141(1)(n), Wis. Stats.
- A person who is eligible for child care assistance under sec. 49.155, Wis. Stats.
- A person who is a vocational rehabilitation referral.
- An economically disadvantaged youth.
- An economically disadvantaged veteran.
- A supplemental security income recipient.

- A general assistance recipient.
- An economically disadvantaged ex-convict.
- A qualified summer youth employee, as defined in 26 USC 51(d)(7).
- A dislocated worker, as defined in 29 USC 2801(9).
- A food stamp recipient.

Specific Instructions

Line 1. Enter the development zones credit for environmental remediation.

Line 2. Enter the development zones credit for job creation or retention.

Line 4. Enter the amount of development zones credit passed through from tax-option (S) corporations, partnerships, LLCs treated as partnerships, estates, or trusts. The pass-through credit is shown on Schedule 5K-1 for shareholders of tax-option (S) corporations, Schedule 3K-1 for partners and LLC members, and Schedule 2K-1 for beneficiaries of estates or trusts.

Line 5. Add lines 3 and 4. This is the total current year development zones credit. Enter the amount on line 5 as an addition to income on the appropriate line of your Wisconsin franchise or income tax return.

Special Instructions for Pass-Through Entities

- **Tax-option (S) corporations, partnerships, and LLCs treated as partnerships:** Prorate the development zones credit on line 5 among the shareholders, partners, or members. Show the credit for each shareholder on Schedule 5K-1 and for each partner or LLC member on Schedule 3K-1.
- **Estates and trusts:** Prorate the development zones credit on line 5 between the estate or trust itself and its beneficiaries in proportion to the income allocable to each. Show the estate's or trust's portion of the credit on the dotted line to the left of line 5. Label it "Form 2 portion." Show the credit for each beneficiary on Schedule 2K-1.

Line 7. Add lines 5 and 6. This is the available development zones credit.

Required Attachments to Schedule DC

To claim the development zones credit, you must attach the following information to Schedule DC:

- A copy of your certification for tax benefits issued by the Department of Commerce.
- A statement from the Department of Commerce verifying the amount of credit for environmental remediation and for job creation or retention.

If the development zones credit is passed through from a tax-option (S) corporation, partnership, LLC treated as a partnership, estate, or trust, attach a copy of your Schedule 5K-1, 3K-1, or 2K-1 to Schedule DC instead of the above information.

Part II – Development Opportunity Zone Investment Credit

General Instructions

The investment credit is available only for businesses certified for tax benefits in a development opportunity zone. The development opportunity zones are located in areas of Kenosha, Milwaukee, and Beloit.

The investment credit is the total of the following amounts:

A. 1.75% of the qualified investment in depreciable, tangible personal property that is expensed under section 179 of the Internal Revenue Code (IRC).

B. 2.5% of the qualified investment in depreciable, tangible personal property that is ***not*** expensed under IRC section 179.

In addition, you must meet the following requirements:

- The credit may be claimed only by the purchaser of the property, except that partners may claim a credit based on purchases by the partnership, members may claim a credit based on purchases by the LLC treated as a partnership, shareholders may claim a credit based on purchases by the tax-option (S) corporation, and beneficiaries may claim a credit based on purchases by the estate or trust.
- You must purchase the property ***after*** you have been certified for tax benefits by the Department of Commerce. The date of purchase is the date on which ownership of the property transfers from the seller to the buyer; that is, the date on which the buyer receives legal title to the property.
- The property must be depreciable, tangible personal property. Machinery and equipment are examples of tangible personal property. Land and land improvements, such as buildings and other permanent structures and their components, are real property and do not qualify for the credit.
- In the case of used property, you may not have used the property for business purposes at a location outside the development opportunity zone. For used property acquired by a partnership, LLC treated as a partnership, tax-option (S) corporation, estate, or trust, the entity may not have used the property for business purposes at a location outside the zone.
- You cannot claim an investment credit for property unless more than 50% of your use of it in the year you place it in service is use in your business in a development opportunity zone. If the property is mobile, the base of operations of the property must be at a location in a development opportunity zone.

  Use of an automobile or other means of transportation is measured in miles. Measure the use of other assets in terms of units of time, such as hours.

  Property is placed in service in the earlier of the following taxable years:

(1) The taxable year in which, under your depreciation practice, the period for depreciation of the property begins.

(2) The taxable year in which you place the property in a condition or state of readiness and availability for a specifically assigned function.

Specific Instructions

Line 8a. Enter the purchase price of qualified property you purchased during the taxable year and expensed under IRC section 179. If the property is used for less than 100% of its use in the conduct of business operations in a development opportunity zone, multiply the purchase price by the percentage of use in the development opportunity zone and enter the result on line 8a.

Line 8b. Enter the purchase price of qualified property you purchased during the taxable year and did not expense under IRC section 179. If the property is used for less than 100% of its use in the conduct of business operations in a development opportunity zone, multiply the purchase price by the percentage of use in the development opportunity zone and enter the result on line 8b.

Line 12. Enter the amount of development opportunity zone investment credit passed through from tax-option (S) corporations, partnerships, LLCs treated as partnerships, estates, or trusts. The pass-through credit is shown on Schedule 5K-1 for shareholders of tax-option (S) corporations, Schedule 3K-1 for partners and LLC members, and Schedule 2K-1 for beneficiaries of estates or trusts.

Line 13. Add lines 11 and 12. This is the total current year development opportunity zone investment credit. Enter the amount on line 13 as an addition to income on the appropriate line of your Wisconsin franchise or income tax return.

Special Instructions for Pass-Through Entities

- **Tax-option (S) corporations, partnerships, and LLCs treated as partnerships:** Prorate the development opportunity zone investment credit on line 13 among the shareholders, partners, or LLC members. Show the credit for each shareholder on Schedule 5K-1 and for each partner or LLC member on Schedule 3K-1.

- **Estates and trusts:** Prorate the development opportunity zone investment credit on line 13 between the estate or trust itself and its beneficiaries in proportion to the income allocable to each. Show the estate's or trust's portion of the credit on the dotted line to the left of line 13. Label it "Form 2 portion." Show the credit for each beneficiary on Schedule 2K-1.

Line 15. Add lines 13 and 14. This is the available development opportunity zone investment credit.

Required Attachments to Schedule DC

To claim the development opportunity zone investment credit, you must attach the following information to Schedule DC:

- A copy of your certification for tax benefits issued by the Department of Commerce.
- A statement from the Department of Commerce verifying the amount of the investment and verifying that the property is qualified property.

If the development opportunity zone investment credit is passed through from a tax-option (S) corporation, partnership, LLC treated as a partnership, estate, or trust, attach a copy of your Schedule 5K-1, 3K-1, or 2K-1 to Schedule DC instead of the above information.

Part III – Development Opportunity Zone or Agricultural Development Zone Capital Investment Credit

General Instructions

The capital investment credit is available only for businesses certified for tax benefits in a development opportunity zone located in areas of Milwaukee or Beloit or in the agricultural development zone.

The capital investment credit is 3% of the following amounts:

A. The purchase price of qualified depreciable, tangible personal property.

B. The amount expended to acquire, construct, rehabilitate, remodel, or repair real property in a development opportunity zone or agricultural development zone.

Depreciable, Tangible Personal Property

Machinery and equipment are examples of tangible personal property. To claim a credit for depreciable, tangible personal property, you must meet the following requirements:

- You must purchase the property ***after*** you have been certified for tax benefits by the Department of Commerce. The date of purchase is the date on which ownership of the property transfers from the seller to the buyer; that is, the date on which the buyer receives legal title to the property.

- You cannot claim a credit for property unless more than 50% of your use of it in the year you place it in service is use in your business in a development opportunity zone or agricultural development zone. If the property is mobile, the base of operations of the property must be at a location in a development opportunity zone or agricultural development zone.

  Use of an automobile or other means of transportation is measured in miles. Measure the use of other assets in terms of units of time, such as hours.

  Property is placed in service in the earlier of the following taxable years:

  (1) The taxable year in which, under your depreciation practice, the period for depreciation of the property begins.

(2) The taxable year in which you place the property in a condition or state of readiness and availability for a specifically assigned function.

Real Property

Land and land improvements, such as buildings and other permanent structures and their components, are real property. To claim a credit for real property, you must meet the following requirements:

- If you made improvements to real property,
  (1) you began the physical work of construction, rehabilitation, remodeling, or repair, or any demolition or destruction in preparation for the physical work, ***after*** the place where the property is located was designated a development opportunity zone or agricultural development zone, or

  (2) you placed the completed project in service ***after*** you were certified for tax benefits.

  Physical work doesn't include preliminary activities such as planning, designing, securing financing, researching, developing specifications, or stabilizing the property to prevent deterioration.

- You must figure your credit for improving property based only on the work done to the portion that is used for certified business purposes. The cost of work done on the nonbusiness portion is excluded.

- If you acquired real property,

  (1) the property is not previously owned property, and

  (2) you acquired the property ***after*** the place where the property is located was designated a development opportunity zone or agricultural development zone, or you placed the completed project in service ***after*** you were certified for tax benefits.

  Previously owned property means real property that you or a related person owned during the two years prior to the Department of Commerce designating the place where the property is located as a development opportunity zone or agricultural development zone. A related person is defined in IRC section 267(b), except that any percentage of ownership is substituted for 50% ownership.

- You must reduce the amount expended to acquire real property by a percentage equal to the percentage of the area of the property not used for certified business purposes.

Specific Instructions

Line 16. Enter the purchase price of qualified depreciable, tangible personal property you purchased during the taxable year. If the property is used for less than 100% of its use in the conduct of business operations in a development opportunity zone or agricultural development zone, multiply the purchase price by the percentage of use in the development opportunity zone or agricultural development zone and enter the result on line 16.

Line 17. Enter the amount expended during the taxable year to acquire, construct, rehabilitate, remodel, or repair real property. If a portion of the real property is not used for certified business operations, reduce the amount expended by the percentage attributable to nonbusiness purposes and enter the result on line 17.

Line 20. Enter the amount of development opportunity zone or agricultural development zone capital investment credit passed through from tax-option (S) corporations, partnerships, LLCs treated as partnerships, estates, or trusts. The pass-through credit is shown on Schedule 5K-1 for shareholders of tax-option (S) corporations, Schedule 3K-1 for partners and LLC members, and Schedule 2K-1 for beneficiaries of estates or trusts.

Line 21. Add lines 19 and 20. This is the total current year development opportunity zone or agricultural development zone capital investment credit. Enter the amount on line 21 as an addition to income on the appropriate line of your Wisconsin franchise or income tax return.

Special Instructions for Pass-Through Entities

- **Tax-option (S) corporations, partnerships, and LLCs treated as partnerships:** Prorate the development opportunity zone or agricultural development zone capital investment credit on line 21 among the shareholders, partners, or LLC members. Show the credit for each shareholder on Schedule 5K-1 and for each partner or LLC member on Schedule 3K-1.

- **Estates and trusts:** Prorate the development opportunity zone or agricultural development zone capital investment credit on line 21 between the estate or trust itself and its beneficiaries in proportion to the income allocable to each. Show the estate's or trust's portion of the credit on the dotted line to the left of line 21. Label it "Form 2 portion." Show the credit for each beneficiary on Schedule 2K-1.

Line 23. Add lines 21 and 22. This is the available development opportunity zone or agricultural development zone capital investment credit.

Required Attachments to Schedule DC

To claim the development opportunity zone or agricultural development zone capital investment credit, you must attach the following information to Schedule DC:

- A copy of your certification for tax benefits issued by the Department of Commerce.
- A statement from the Department of Commerce verifying the amount of the investment and verifying that the property is qualified property.

If the development opportunity zone or agricultural development zone capital investment credit is passed through from a tax-option (S) corporaton, partnership, LLC treated as a partnership, estate, or trust, attach a copy of your Schedule 5K-1, 3K-1, or 2K-1 to Schedule DC instead of the above information.

Part IV – Recapture of Investment Credit

General Instructions

At the end of each taxable year, you must determine whether, during the year, you disposed of or stopped using in a development zone any property for which you claimed investment credit in a prior year.

You must refigure the investment credit that you took in an earlier year if:

A. You disposed of the property before the end of the recapture period or the useful life of the property.

B. You moved the property out of the development zone or, if the property is mobile property, the base of operations is moved out of the zone before the end of the recapture period for the property.

C. You changed the use of the property so that it no longer qualifies as investment credit property. For example, you must refigure the credit if you change the use of property from business use to personal use, or if the percentage of business use of the property decreases to 50% or less.

Tax-option (S) corporations, partnerships, LLCs treated as partnerships, estates, and trusts must give their shareholders, partners, members, or beneficiaries the information they need to refigure the credit.

Specific Instructions

Line 24. Describe the property for which you must refigure the credit. Use a separate column for each item. If you need more columns, attach other schedules with all the information shown on this form. Include the total from the separate schedules on line 32.

Line 25. Enter the day, month, and year that the property was available for service.

Line 26. Enter the original estimated useful life or recovery period that you used to figure depreciation for the property.

Line 28. Enter the day, month, and year that the property ceased to be qualified investment credit property.

Decrease in business use: If you take investment credit for property and the percentage of business use in a later year falls to 50% or less, you are treated as having disposed of the property. Business use is computed on a taxable-year basis. A decrease in business use is deemed to take place on the first day of the taxable year.

Line 29. Enter the number of full years from the date the property was placed in service until the date it ceased to be qualified investment credit property. Do not enter partial years. If the property was held less than 12 months, enter zero.

Line 30. Enter the recapture percentage from the following table:

Recovery Property

If number of full years on Schedule DC, line 29, is:	The recapture percentage for: 3-year property is:	Other than 3-year property is:
0	100	100
1	66	80
2	33	60
3	0	40
4	0	20

Line 32. If you used separate schedules to list additional items on which you figured an increase in tax, include that amount in the total on line 32.

Line 33. If you did not use all the credit you originally figured, either in the year you computed it or in a carryforward year, you do not have to recapture the amount of the credit you did not use. In refiguring the credit for the original credit year, be sure to take into account any carryforwards from previous years that are now allowed because the recapture and recomputation of the original credit made available some additional tax liability in that year. Figure the unused portion on a separate sheet and enter it on this line. Do not enter more than the recapture tax on line 32.

Reminder: Be sure to adjust your *current* unused credit to reflect any unused portion of the original credit that was recaptured on this form.

Line 34. See the instructions to your franchise or income tax return for reporting the increase in tax.