

Instructions for 2006 Schedule MS

Item to Note

Effective January 1, 2006, the manufacturer's sales tax credit is replaced with a sales and use tax exemption for fuel and electricity consumed in manufacturing tangible personal property in Wisconsin. As a result, a manufacturer's sales tax credit may not be computed for taxable years that begin after December 31, 2005. The treatment of manufacturer's sales tax credits computed but unused for taxable years that began before January 1, 2006, depends on the amount of unused credits.

Taxpayers having \$25,000 or less of unused credits may use up to 50% of the credits in each of their taxable years beginning in 2006 and 2007. The balance of any unused credits may be carried forward to future taxable years during the remainder of the 20-year carryforward period.

Taxpayers having more than \$25,000 of unused credits may deduct in each of the two taxable years beginning after December 31, 2005, and before January 1, 2008, 50% of the amount of unused credit that the taxpayer had added back to income when the taxpayer first computed the credit. In the case of unused credits passed through from a partnership, limited liability company, or tax-option (S) corporation, a deduction is allowed each year for 50% of the amount that the entity added back to its income and was included in the partner's, member's, or shareholder's Wisconsin net income at the time that the credit was first computed. Taxpayers having more than \$25,000 of unused credits may be eligible for a manufacturing investment credit for taxable years beginning after December 31, 2007. The Wisconsin Department of Commerce is responsible for certifying businesses for the manufacturing investment credit.

General Instructions

Purpose of Schedule MS

Use Schedule MS to determine the amount of manufacturer's sales tax credit carryforward that you may claim on your 2006 Wisconsin return to offset your franchise or income tax liability. If you have more than \$25,000 of unused credits, use Schedule MS to compute your deduction from net income. You must attach a copy of Schedule MS to the Wisconsin franchise or income tax return that you file.

Who Must Complete Schedule MS

Corporations, individuals, estates, and trusts that have unused manufacturer's sales tax credit carryforwards must complete Schedule MS to figure the amount of credit that may be used in 2006.

Tax-option (S) corporations that have unused credits for tax periods beginning before January 1, 1998, or credits computed in taxable years beginning after December 31, 1997, that were not passed through to shareholders, must complete Schedule MS to determine the amount of credit carryforward that may offset the corporation's franchise tax measured by certain federal and state interest income. A tax-option (S) corporation's shareholders must file their own Schedules MS to determine their allowable carryforwards of credits computed by the corporation and passed through to the shareholders for taxable years beginning after December 31, 1997.

Partnerships and limited liability companies treated as partnerships cannot use Schedule MS since any credits computed by the entity were required to be passed through to their partners or members. The partners or members must file their own Schedules MS to determine their allowable credit carryforwards.

Specific Instructions

Part I – Computation of 2006 Credit or Deduction

Note: You must fill in Parts II, III, and IV, as applicable, before filling in Part I.

Line 1. This line is for corporations only. If you have unused manufacturer's sales tax credits from your own manufacturing operations, complete Part II and fill in the amount of your unused credits from Part II, line 2, column f.

Line 2. If you have unused manufacturer's sales tax credits from partnerships, limited liability companies treated as partnerships, tax-option (S) corporations, estates, trusts, or sole proprietorships, complete Part III and fill in the amount of your unused credits from Part III, line 8, column f.

Line 3. Add line 1 and line 2 and enter the total. If the total is more than \$25,000, you may not claim a manufacturer's sales tax credit for taxable years beginning on or after January 1, 2006. Instead, go to line 11 (for corporations) or line 15 (for individuals, estates, or trusts) to compute your allowable deduction.

Lines 5 through 8. Corporations fill in these lines to determine their allowable manufacturer's sales tax credit carryforward for their taxable year beginning in 2006.

Lines 9 and 10. Individuals, estates, and trusts fill in these lines to determine their allowable manufacturer's sales tax credit carryforward for their taxable year beginning in 2006. Individuals, estates, and trusts may offset the manufacturer's sales tax credit only against tax on income from the business operations in which the fuel and electricity were consumed.

Lines 11 through 20. Fill in these lines only if you have more than \$25,000 of unused manufacturer's sales tax credits.

Part II – Unused Manufacturer's Sales Tax Credits From Your Own Business Operations (Corporations Only)

Line 1. Fill in the information requested for your unused manufacturer's sales tax credits from your own manufacturing business operations. Corporations may carry forward unused credits computed for taxable years beginning on or after January 1, 1988.

Column a. Fill in the taxable years from which you have unused manufacturer's sales tax credits. Start with the earliest year from which the current unused credit originated.

Column b. For each of the years shown in column a, fill in the amount, if any, of manufacturer's sales tax credit reported as income in that taxable year.

Column c. For each of the years shown in column a, fill in the amount of manufacturer's sales tax credit computed. Do not include carryforwards available from prior years.

Column d. For each of the years shown in column a, fill in the amount of credit from column c that has been used to offset franchise or income tax liability for that year or any subsequent year.

Column e. Fill in the year or years in which the credit shown in column d was used to offset franchise or income tax liability.

Column f. For each of the years shown in column a, subtract the amount of credit used as shown in column d from the credit computed as shown in column c.

Line 2. Add the amounts in column b and enter the total on line 2, column b. This is the total amount of manufacturer's sales tax credit from your own manufacturing business operations that you reported as income.

Add the amounts in column d and enter the total on line 2, column d. This is the total amount of manufacturer's sales tax credit from your own manufacturing business operations that you used.

Add the amounts in column f and enter the total on line 2, column f. This is the total unused manufacturer's sales tax credit from your own manufacturing business operations. Enter this amount in Part I, line 1.

Part III – Unused Manufacturer's Sales Tax Credits From Pass-Through Entities and Sole Proprietorships

If you have unused manufacturer's sales tax credits from a partnership, limited liability company treated as a part-

nership, tax-option (S) corporation, estate, trust, or sole proprietorship, you must fill in Part III.

Note: If any manufacturer's sales tax credit was allocated to you from a pass-through entity that filed its 2005 return on a fiscal year basis, include the amount of any credits passed through to you that you were unable to claim on your 2005 return. In addition, you must include the amount of these 2005 credits as an addition to income on your 2006 return.

Items A through C. Fill in the name and federal employer identification number of any pass-through entities from which you have unused manufacturer's sales tax credits. If you have unused manufacturer's sales tax credits from one or more sole proprietorships, enter each sole proprietorship's business name on a separate line and enter "Schedule C" in the space for the entity's federal employer identification number. Attach additional schedules if you need more entry spaces.

For each business listed in items A through C or on attached schedules, provide the following information.

Lines 1, 3, and 5. Fill in the information requested for your unused manufacturer's sales tax credits from pass-through entities and sole proprietorships. Individuals, estates, and trusts may carry forward unused credits computed for taxable years beginning on or after January 1, 1998.

Column a. Fill in the taxable years from which you have unused manufacturer's sales tax credits. Start with the earliest year from which the current unused credit originated.

Column b. For each of the years shown in column a, fill in the amount, if any, of manufacturer's sales tax credit reported as income in that taxable year.

Column c. For each of the years shown in column a, fill in the amount of manufacturer's sales tax credit computed. Do not include carryforwards available from prior years.

Column d. For each of the years shown in column a, fill in the amount of credit from column c that has been used to offset your franchise or income tax liability attributable to income from that business for that year or any subsequent year.

Column e. Fill in the year or years in which the credit shown in column d was used to offset your franchise or income tax liability attributable to income from that business.

Column f. For each of the years shown in column a, subtract the amount of credit used as shown in column d from the credit computed as shown in column c.

Lines 2, 4, and 6. For each business listed in items A through C or on attached schedules, separately total the amounts reported in columns b, d, and f.

Line 7. Fill in the totals that you computed in Part III, lines 2, 4, and 6, and on separate schedules, if applicable, for columns b, d, and f.

Line 8. Add the amounts in column b and enter the total on line 8, column b. This is the total amount of manufacturer's sales tax credit from pass-through entities and sole proprietorships that you reported as income.

Add the amounts in column d and enter the total on line 8, column d. This is the total amount of manufacturer's sales tax credit from pass-through entities and sole proprietorships that you used.

Add the amounts in column f and enter the total on line 8, column f. This is the total unused manufacturer's sales tax credit from pass-through entities and sole proprietorships. Enter this amount in Part I, line 2.

Part IV – Unused Manufacturer's Sales Tax Credit From Pass-Through Entities and Sole Proprietorships Available for 2006

Note: Fill in Part IV **only** if the amount you entered in Part I, line 3, is \$25,000 or less.

Column b. Fill in your share of each business's net income or loss reported on your 2006 franchise or income tax return. If column b shows a loss from a particular business, enter zero (0) in column e for that business.

You may offset unused manufacturer's sales tax credits from pass-through entities and sole proprietorships only against tax on the income from the business operations in which the fuel and electricity were consumed. If you have unused credits from more than one business, you must compute the allowable credit from each business separately. You may not offset credits from a business that incurred a loss against the tax owed on income from another business that operated at a profit.

For shareholders of tax-option (S) corporations, the following items are **not** considered income from the business operations:

- Salary for services performed
- Interest on loans made to the corporation
- Taxable dividends paid by the corporation
- Rents and royalties from assets leased to the corporation

Column c. Enter your gross tax.

For corporations, the gross tax is the amount from Form 4, line 14; Form 4I, line 14; Form 4T, line 8; Form 5, line 8; or Form 5S, line 4.

For individuals, the gross tax is the amount from Form 1, line 28, or Form 1NPR, line 54, minus the married couple credit from Form 1, line 29, or Form 1NPR, line 55.

For estates and trusts, the gross tax is the amount from Form 2, line 10, or Form 4T, line 16.

If the result is zero or less, enter zero (0) in column e for that pass-through entity.

Column d. Corporations should skip column d and fill in column e.

Individuals, estates, and trusts should fill in the amount of their Wisconsin tax liability computed without including any amounts of income, deduction, or expense from the business operations in which the fuel and electricity were consumed. You must make a separate computation for each pass-through entity or sole proprietorship from which you have unused manufacturer's sales tax credits. If you are an individual or fiduciary, you may determine your recomputed tax liability by completing a second Wisconsin return (through Form 1, line 29; Form 1NPR, line 55; Form 2, line 10; or Form 4T, line 16) which does not include these income, deduction, or expense items. Keep this second return for your records. The amount to enter in column d is the recomputed amount from Form 1, line 28; Form 1NPR, line 54; Form 2, line 10; or Form 4T, line 16; minus the married couple credit from Form 1, line 29, or Form 1NPR, line 55.

Column e. Corporations enter the portion of the gross franchise or income tax that is attributable to the amount in column b. This is the lesser of (1) the net income reported in column b multiplied by 7.9% (0.079), or (2) the corporation's gross tax in column c.

Individuals, estates, and trusts subtract the amount in column d from the amount in column c for each pass-through entity or sole proprietorship.

Column f. Enter the unused credit for each pass-through entity or sole proprietorship from Part III, line 7, column f.

Column g. For each pass-through entity or sole proprietorship, enter the smaller of the amount in column e or column f.

Line 2. If you have more than 3 businesses from which you have unused manufacturer's sales tax credits, attach a schedule showing these same columns for each additional business. Add the amounts from column g on this schedule and enter the total on line 2.

Line 3. Add the amounts in column g and enter the total on line 3. Corporations enter this amount in Part I, line 6. Individuals, estates, and trusts enter this amount in Part I, line 9.