Instructions for Completing Wisconsin Schedule I – 2006

INTRODUCTION – Generally, the Wisconsin Statutes require that the computation of taxable income on the 2006 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
- 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 2006, 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 2006 (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 2006.

It also may be necessary to prepare a 2006 Schedule I to adjust the amount of gain or loss reportable from sales of certain assets during 2006. 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 2006. 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 2006 federal adjusted gross income from line 37 of your federal Form 1040.

2 & 3. If you sold or otherwise disposed of certain property during 2006, 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. Enclose a revised federal Schedule D, Form 4684, or Form 4797 marked "Revised for Wisconsin purposes" with 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 2006.

5. Complete line 5 to make all other adjustments needed to convert 2006 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 2006. 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.

The "Federal" explanation indicates how an item is to be treated for federal income tax purposes as of December 31, 2006. 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 2006 to consider further legislation, and that further legislation could affect the taxable year 2006. Federal law changes enacted after December 31, 2004, do not apply for Wisconsin purposes for 2006 unless retroactively adopted by the Wisconsin Legislature. Changes that could be adopted for federal tax purposes for 2006 that would not apply for Wisconsin for 2006 include deductions for tuition and fees and for educator expenses.

If federal law changes are enacted which affect 2006 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. 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.

4. Increase in Section 179 Expensing

(a) Federal – For taxable years beginning in 2006, the amount that may be expensed under sec. 179, Internal Revenue Code, is $108,000. The phase-out threshold is $430,000. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. **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.

10. **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.

11. **Electric Transmission Property**

   (a) Federal – 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.

12. **Amortization for Certain Atmospheric Pollution Control Facilities**

   (a) Federal – 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.

13. **Expensing for Equipment Used in Refining of Liquid Fuels**

   (a) Federal – 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.

14. **Natural Gas Distribution Lines Treated as 15-Year Property**

   (a) Federal – 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.

15. **Natural Gas Gathering Lines Treated as 7-Year Property**

   (a) Federal – 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.

16. **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.

17. **Amortization of Geological and Geophysical Expenditures**

   (a) Federal – 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.

18. **Energy Efficient Commercial Buildings Deduction**

   (a) Federal – 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.

19. **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. The maximum deduction is 25% of the federal deduction allowed for 2005 (for example, $500 for a vehicle 10,000 pounds or under.

20. **Recapture of Section 197 Amortization**

   (a) Federal – 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.

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

   (a) Federal – For distributions on or after August 25, 2005, and before January 1, 2007, 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.

22. Recontributions of Withdrawals for Home Purchases

(a) Federal – Taxpayers who withdrew funds from an IRA or other eligible retirement plan for a first-time home purchase, but who could not complete that purchase because of Hurricane Katrina, may, during the period 8-25-05 through 2-28-06, put the funds back in their IRA or other eligible retirement plan without penalty. (Public Law 109-73)

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

23. Loans from Qualified Plans

(a) Federal – For loans made after September 22, 2005, and before January 1, 2007, 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.

24. 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.

25. 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 actual travel costs.

26. 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.

27. 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.

28. Additional Depreciation Allowance for GO Zone Property

(a) Federal – An additional 50% depreciation allowance may be claimed for the cost of qualified Gulf Opportunity Zone property acquired on or after August 28, 2005, and placed in service on or before December 31, 2007 (December 31, 2008, in the case of nonresidential real property and residential rental property). (Public Law 109-135)

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

29. Section 179 Deduction for GO Zone Property

(a) Federal – The maximum allowable sec. 179, Internal Revenue Code, expense allowance is increased by the lesser of $100,000 or the cost of qualified sec. 179 Gulf Opportunity Zone property placed in service in the tax year. The investment limit is increased by the lesser of $600,000 or the amount of such property placed in service during the tax year. (Public Law 109-135)

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

30. Expensing of Certain Demolition and Clean-up Costs in GO Zone

(a) Federal – Business taxpayers may claim a deduction for 50% of costs paid or incurred in the Gulf Opportunity Zone before January 1, 2008, to remove debris from real property or to demolish structures on real property. (Public Law 109-135)

(b) Wisconsin – The treatment of the cost to demolish structures and to remove debris is determined under the provisions of the Internal Revenue Code in effect on December 31, 2004.

31. Environmental Remediation Costs in GO Zone

(a) Federal – Qualified environmental remediation expenditures paid or incurred in connection with a contaminated site located in the Gulf Opportunity Zone are deductible if paid or incurred before January 1, 2008. Petroleum products, including crude oil, are treated as a hazardous substance for purposes of the deduction. (Public Law 109-135)

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

32. Reforestation Expenditures in GO Zone

(a) Federal – For taxpayers that hold no more than 500 acres of qualified timber property, the maximum expensing limitation is doubled to $20,000 for reforestation expenditures paid or incurred in the Gulf Opportunity Zone, Rita Gulf Opportunity Zone, or the Wilma Gulf Opportunity Zone. (Public Law 109-135)

(b) Wisconsin – The increase in the maximum expensing limitation does not apply for Wisconsin.

33. Employer-Provided Housing for Individuals Affected by Hurricane Katrina

(a) Federal – Gross income of an employee affected by Hurricane Katrina shall not include the value of any lodging furnished in-kind to such employee and his/her spouse and dependents, up to $600 per month for the first six months of 2006. (Public Law 109-135)

(b) Wisconsin – The taxation of employer-provided housing is determined under the provisions of the Internal Revenue Code in effect on December 31, 2004.

34. Extension of Bonus Depreciation in GO Zones

(a) Federal – The additional first-year depreciation deduction and the 50% bonus depreciation applies to property placed in service before January 1, 2007, that is located in any of the Gulf Opportunity Zones. (Public Law 109-135)

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

35. Loans from Retirement Plans to Hurricane Victims

(a) Federal – The exclusion amounts for loans made from qualified employer plans to hurricane victims for the acquisition of a principal residence are increased. The due dates for repayment and the five-year repayment requirement are delayed one year. (Public Law 109-135)

(b) Wisconsin – The treatment of loans from qualified employer plans is determined under the provisions of the Internal Revenue Code in effect on December 31, 2004.

36. Capital Gains Treatment for Self-Created Musical Works

(a) Federal – At the election of the taxpayer, the sale or exchange before January 1, 2011, of musical compositions or copyrights in musical works created by the taxpayer's personal efforts is treated as the sale or exchange of a capital asset. (Public Law 109-222)

(b) Wisconsin – Gain from the sale or exchange of musical compositions or copyrights in musical works created by the taxpayer's personal efforts is treated as ordinary income.

37. Amortization of Expenses Relating to Music or Music Copyrights

(a) Federal – A taxpayer may elect a 5-year amortization period with respect to musical compositions and copyrights placed in service in the taxable year. (Public Law 109-222)

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

38. Loans to Continuing Care Facilities

(a) Federal – The exceptions to the imputed interest rules are revised to eliminate the dollar cap on aggregate outstanding loans and to lower the age of the lender or the lender's spouse to 62. (Public Law 109-222)

(b) Wisconsin – The imputed interest rules apply if the aggregate outstanding loans do not exceed $163,000 and if the lender or the lender's spouse has attained the age of 65 before the close of the calendar year.

39. Distributions Involving Disqualified Investment Companies

(a) Federal – Section 355, IRC, treatment is denied if either the distributing or distributed corporation is a disqualified investment corporation immediately after the transaction and any person that did not hold 50% or more of the voting power or value of stock of such distributing or controlled corporation immediately before the transaction does hold a 50% or greater interest immediately after such transaction. (Public Law 109-222)

(b) Wisconsin – The treatment of distributions of stock and securities of a controlled corporation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2004.

40. Modification of Exclusion for Citizens Living Abroad

(a) Federal – The maximum foreign earned income exclusion is $82,400. The base housing amount used in calculating the foreign housing cost exclusion is 16 % of the amount (computed on a daily basis) of the foreign earned income exclusion limitation, multiplied by the number of days of foreign residence or presence in the year. (Public Law 109-222)

(b) Wisconsin – The maximum foreign earned income exclusion is $80,000. The base housing amount used in calculating the foreign housing cost exclusion is 16% of the grade GS-14, step 1 amount, multiplied by the number of days of foreign residence or presence in the year.

41. Domestic Manufacturing Deduction Wage Limitation

(a) Federal – Only those wages allocable to domestic production gross receipts are included for purposes of the 50% of wages limitation. (Public Law 109-222)

(b) Wisconsin – The computation of the domestic production activities deduction is determined under the provisions of the Internal Revenue Code in effect on December 31, 2004.

42. Combat Zone Compensation

(a) Federal – Members of the Armed Forces serving in a combat zone may make contributions to their individual retirement plan even if the compensation on which such contribution is based is excluded from gross income. (Public Law 109-227)

(b) Wisconsin – Contributions to an individual retirement plan cannot be based on compensation that is excluded from gross income.

43. IRA Distribution Transferred for Charitable Purposes

(a) Federal – Up to $100,000 of the amount directly transferred from an IRA to a qualified charitable organization is not included in gross income. (Public Law 109-280)

(b) Wisconsin – The amount distributed from an IRA and transferred to a qualified charitable organization is included in income.

44. Charitable Deduction for Contributions of Food Inventory

(a) Federal – Charitable contributions of food inventory by a trade or business are not subject to the usual sec. 170(e) limitations on contributions of ordinary income property. (Public Law 109-280)

(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.

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 in the year the medical expenses are paid.

2. Standard Mileage Rate for Charitable Use of Vehicle

(a) Federal – The standard mileage rate for charity work related to Hurricane Katrina is 70% of the standard business mileage rate. The 2006 rate is 32 cents-per-mile. (Public Law 109-73)

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

3. IRA Transferred for Charitable Purposes

(a) Federal – A deduction is not allowed for amounts directly transferred from an IRA to a qualified charitable organization and excluded from income. (Public Law 109-280)

(b) Wisconsin – The amount transferred from an IRA to a qualified charitable organization is allowed as an itemized deduction for purposes of computing the Wisconsin itemized deduction credit.

4. Increased Deduction for Conservation Contributions

(a) Federal – The deduction for qualified conservation contributions is limited to 50% of adjusted gross income (100% if the donor is a farmer or rancher). The carry forward period is extended to 15 years. (Public Law 109-280)

(b) Wisconsin – Conservation contributions are deductible and used to compute the itemized deduction credit only to the extent of 30% of adjusted gross income. The carry forward period is 5 years.

5. Gifts of Historical Façade Easements

(a) Federal – For contributions after July 25, 2006, no deduction is allowed for a gift of a façade easement unless (1) the easement preserves the exterior of the building, (2) the deduction is reduced by a pro-rata share of any rehabilitation credit claimed, and (3) the donor includes a qualified appraisal, photographs, and a filing fee with the return. (Public Law 109-280)

(b) Wisconsin – The treatment of gifts of historical façade easements is determined under the provisions of the Internal Revenue Code as amended to December 31, 2004.

6. Contributions of Taxidermy Property

(a) Federal – For contributions after July 25, 2006, the deduction for gifts of taxidermy property is limited to taxidermy costs. This applies only to a person who prepared or paid for the taxidermy property. Only the cost of preparing, stuffing, or mounting is included in the basis of the property. (Public Law 109-280)

(b) Wisconsin – The treatment of contributions of taxidermy property is determined under the provisions of the Internal Revenue Code as amended to December 31, 2004.

7. Gifts of Tangible Personal Property

(a) Federal – If gifted property is disposed of by the charity within the same year it was received, the donor may deduct only the tax basis of the property. If the charity disposes of the gifted property within three years of the gift, the tax benefit that the donor received must be recaptured. (Public Law 109-280)

(b) Wisconsin – The donor of a gift of tangible personal property may deduct only the tax basis of the property if the charity did not use the property in its exempt function.

8. Contributions of Household Goods and Clothing

(a) Federal – For contributions after August 17, 2006, a deduction is allowed only if donated clothing or household goods are "in good used condition or better." This does not apply to gifts of food, art objects, jewelry, gems, or collections or to individual items of clothing or household goods with a value of $500 or more that is supported by an appraisal. (Public Law 109-280)

(b) Wisconsin – The deduction for donations of clothing or household goods is determined under the provisions of the Internal Revenue Code as amended to December 31, 2004.

9. Contributions of Fractional Interests

(a) Federal – For contributions after August 17, 2006, contributions of fractional interest in tangible personal property are limited as follows: (1) the donor must own 100% of the property before making the first gift, (2) subsequent gifts of fractional interest must be valued as if made at the time of the initial gift, and (3) any tax deduction will be recaptured if the donee does not receive 100% of the property by the earlier of the donor's death or 10 years after the initial gift. (Public Law 109-280)

(b) Wisconsin – The deduction for contributions of fractional interest in tangible personal property is determined under the provisions of the Internal Revenue Code as amended to December 31, 2004.

10. Recordkeeping for Charitable Contributions

(a) Federal – For taxable years beginning after August 17, 2006, a deduction is not allowed unless the donor maintains either (1) a bank record, or (2) a receipt, letter, or other written communication from the donee indicating the name of the donee organization, the date the contribution was made, and the amount. (Public Law 109-280)

(b) Wisconsin – The recordkeeping requirements for charitable contributions are determined under the provisions of the Internal Revenue Code as amended to December 31, 2004.

RECENT FEDERAL LAW CHANGES DO NOT APPLY FOR WISCONSIN

For taxable years beginning in 2006, Wisconsin generally follows the Internal Revenue Code enacted as of December 31, 2004. Unless later adopted by the Wisconsin Legislature, changes to federal law enacted after December 31, 2004, do not apply for Wisconsin. Taxpayers must use 2006 Wisconsin Schedule I to adjust for Wisconsin and federal differences in the definition of the Internal Revenue Code. Schedule I provides a listing of the various items that must be adjusted.

An additional federal law was enacted after the 2006 Schedule I was sent to the printer. Listed below are additional changes to federal law that must be considered when completing Schedule I. These law changes were made by Public Law 109-432, enacted December 20, 2006, and do not apply for Wisconsin for 2006.

1. **Deduction for Tuition and Fees**

   (a) Federal – The deduction 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 is extended through December 31, 2007.

   (b) Wisconsin – The federal deduction for up to $4,000 of qualified tuition and fees does not apply for Wisconsin.

2. **Educator Expenses**

   (a) Federal – The deduction from gross income for up to $250 of expenses paid or incurred by an eligible educator in connection with books, supplies, computer equipment and other equipment, and supplementary materials used by an educator in the classroom is extended through taxable years beginning in 2007.

   (b) Wisconsin – The deduction from gross income for expenses of an educator in connection with books, supplies, computer equipment and other equipment, and supplementary materials used in the classroom is not allowed.

3. **Environmental Remediation Costs**

   (a) Federal – The election to expense environmental remediation costs is extended through December 31, 2007. The definition of a hazardous substance is expanded to include any petroleum product.

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

4. **Accelerated Depreciation for Indian Reservation Property**

   (a) Federal – The provision allowing accelerated depreciation for business property on Indian reservations is extended. It will expire for property placed in service after December 31, 2007.

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

5. Qualified Leasehold Improvements and Qualified Restaurant Property

(a) Federal – The 15-year recovery period for qualified leasehold improvement property and qualified restaurant property is extended to apply to property placed in service during 2006 and 2007.

(b) Wisconsin – The recovery period for depreciation of leasehold improvement property and restaurant property is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

6. Archer Medical Savings Accounts (MSA)

(a) Federal – The cut-off year for purposes of the Archer MSAs is extended through calendar year 2007.

(b) Wisconsin – No deduction is allowed for contributions to Archer MSAs established after calendar year 2005

7. Bonus Depreciation for Gulf Opportunity Zone Property

(a) Federal – Fifty percent bonus depreciation is extended for Gulf Opportunity Zone property placed in service on or before December 31, 2010.

(b) Wisconsin – Bonus depreciation does not apply for Wisconsin. Depreciation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

8. Energy Efficient Commercial Buildings Deduction

(a) Federal – The deduction for energy-efficient commercial building property expenditures is extended to property placed in service after December 31, 2007, and before January 1, 2009.

(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.

9. Depreciation for Cellulosic Biomass Ethanol Plant Property

(a) Federal – The depreciation deduction for cellulosic biomass ethanol plant property shall include an allowance equal to 50% of the adjusted basis of such property.

(b) Wisconsin – Depreciation for cellulosic biomass ethanol plant property is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

10. Rollovers from Health FSAs and HRAs into HSAs

(a) Federal – Certain amounts in a health flexible spending arrangement (FSA) or health reimbursement arrangement (HRA) may be distributed from the FSA or

HRA and contributed through a direct transfer to a health savings account (HSA). Amounts contributed to the HSA under this provision are excludable from gross income and are not deductible.

(b) Wisconsin does not recognize HSAs. Any distribution from an FSA or HRA is taxable when rolled over to an HSA.

11. Domestic Production Activities in Puerto Rico

(a) Federal – For purposes of determining production gross receipts, Puerto Rico may be treated as part of the United States.

(b) Wisconsin – Puerto Rico may not be treated as part of the United States when determining production gross receipts.

12. Partial Expensing for Advanced Mine Safety Equipment

(a) Federal – For property placed in service after December 20, 2006, a taxpayer may elect to treat 50% of the cost of any qualified advanced mine safety equipment property as a deduction in the taxable year in which the equipment is placed in service.

(b) Wisconsin – Advanced mine safety equipment is depreciated under the provisions of the Internal Revenue Code in effect on December 31, 2000.

13. Whistleblower Reforms

(a) Federal – For information provided on or after December 20, 2006, an above-the-line deduction is allowed for attorneys' fees and costs paid by, or on behalf of, an individual in connection with any award for providing information to the IRS regarding violations of tax laws.

(b) Wisconsin – Attorneys' fees and costs can only be claimed as a miscellaneous itemized deduction. Such fees are not allowed in computing the Wisconsin itemized deduction credit.

14. Exclusion of Gain on Sale of Residence by Members of the Intelligence Community

(a) Federal – To be eligible to exclude gain on the sale of a principal residence, the taxpayer must have owned and used the residence as a principal residence for at least two of the five years ending on the sale or exchange. For sales and exchanges after December 20, 2006, specified employees of the intelligence community may elect to suspend the running of the five-year test period during any period in which they are serving on extended duty.

(b) Wisconsin – Taxpayers must meet the five-year test period to qualify to exclude gain on the sale of a principal residence.

15. Percentage Depletion from Oil and Natural Gas

(a) Federal – The taxable income limitation suspension provision for marginal production is extended for taxable years beginning after December 31, 2005, and before January 1, 2008.

(b) Wisconsin – Under the percentage depletion method, 15% of the taxpayer’s gross income from an oil- or gas-producing property is allowed as a deduction in each taxable year. The amount deducted may not exceed 100% of the taxable income from that property in any year.

16. Sale of Property by Judicial Officers

(a) Federal – Under prior law, employees of the executive branch of the federal government (and their spouses and minor or dependent children) who are required to divest property in order to comply with conflict of interest requirements may elect to postpone the recognition of gains by investing in certain replacement property within 60 days. For sales after December 20, 2006, this postponement is extended to judicial officers.

(b) Wisconsin – The election to postpone recognition of gain applies to an officer or employee of the executive branch of the Federal Government and their spouses and minor or dependent children.