Wisconsin
Partnership Form 3 Instructions

New . . .

Estates and trusts ineligible for composite returns

For taxable years beginning in 2006, a partnership filing a composite return (Form 1CNP) on behalf of its nonresident partners may not include estates or trusts in the composite return. The estates and trusts must each file their own Wisconsin return. See page 4.

Withholding required for nonresident partners

A partnership that has nonresident partners is subject to a withholding tax. Transitional provisions that exempted some partnerships from withholding and filing Form PW-1 for taxable years beginning in 2005 are no longer in effect for taxable years beginning in 2006. See page 4.

Sales tax exemption replaces manufacturer's sales tax credit

Beginning January 1, 2006, a sales and use tax exemption applies for fuel and electricity consumed in manufacturing tangible personal property in Wisconsin. The manufacturer's sales tax credit may not be claimed for taxable years that begin after December 31, 2005. As a result, Schedule 3Z has been discontinued.

Important . . .

Allocation of income from lottery prizes

All income realized from Wisconsin lottery prizes, including income from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in Wisconsin is allocated to Wisconsin. A multistate partnership includes this income on Form 4B, Part I, line 4. See page 14.

Single-owner LLCs

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

Wisconsin use tax

Partnerships that purchase taxable tangible personal property or taxable services for storage, use, or consumption in Wisconsin without payment of a state sales or use tax are subject to a Wisconsin use tax. See page 4.

For More Information . . .

Visit the Department of Revenue's Internet web site at www.revenue.wi.gov

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

Don't Forget . . .

- Fill in your federal employer ID number
- Fill out the form completely
- Attach a copy of your federal return and any other required forms, schedules, or statements
- Attach a copy of any extension
- Sign the return

Printed on Recycled Paper

General Instructions

Purpose of Form 3

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

Definitions

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

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

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

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

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

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

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

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

Who Must File

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

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

Exceptions:

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

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

- Publicly traded partnerships treated as corporations under IRC section 7704 must file Wisconsin Form 4 or 5 instead of Form 3.

- Limited liability companies treated as corporations for federal income tax purposes must file Wisconsin Form 4 or 5 instead of Form 3.

- Single member limited liability companies that are disregarded as separate entities under IRC section 7701 are disregarded as separate entities for Wisconsin purposes. The member is required to include the income and expenses of the limited liability company on the member's return.

- Common trust funds are treated as fiduciaries under Wisconsin law and must file Wisconsin Form 2 instead of Form 3.

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

How to Obtain Forms

If you need forms or publications, you may:

- Download them from the Department's Internet web site at www.revenue.wi.gov
- Use your fax telephone to call the Department's Fax-A-Form Retrieval System at (608) 261-6229
- Request them online at www.revenue.wi.gov
- Call (608) 266-1961
- Write to the Forms Request Office, Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8949, Madison, WI 53708-8949
- Call or visit any Department of Revenue office

How to Obtain Assistance

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

- E-mail your question to income@dor.state.wi.us
- Send a FAX to (608) 267-1030

- Call (608) 266-2772 [TTY (608) 267-1049]
- Write to the Customer Service and Education Bureau, Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8949, Madison, WI 53708-8949
- Call or visit any Department of Revenue office

Period Covered by Return

The return must cover the same period as the partnership's federal income tax return. File a 2006 Wisconsin return for calendar year 2006 or a fiscal year that begins in 2006.

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

Accounting Methods

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

When and Where to File Return

A partnership must file its return with the Wisconsin Department of Revenue, by the 15th day of the 4th month following the close of its taxable year. Mail the return to P.O. Box 8965, Madison, WI 53708-8965. **Note: Do not staple, fasten, or bind the pages of your return, including attachments. Use paper clips instead.**

Extension of Time to File

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

Information Returns That May Be Required

Form 9b   Report of rents, royalties, and miscellaneous compensation paid to individuals. (**Note:** You may use federal Forms 1099 instead of Forms 9b. Mail Forms 1099 to the Wisconsin Department of Revenue, P.O. Box 8932, Madison, WI 53708-8932.)

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

Internal Revenue Service Adjustments and Amended Returns

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

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

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

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

Send a copy of the final federal audit reports and amended returns to the Wisconsin Department of Revenue, P.O. Box 8965, Madison, WI 53708-8965. Do not attach these items to the return for the current year.

Recycling Surcharge

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

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

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

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

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

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

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

General Instructions (continued)

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

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

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

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

Withholding Requirement for Partnerships Having Nonresident Partners

In general, a partnership that has one or more nonresident partners is required to withhold income or franchise tax on the income allocable to the nonresident partners.

A nonresident partner includes an individual who is not domiciled in Wisconsin; a partnership, limited liability company, or corporation whose commercial domicile is outside Wisconsin; and an estate or trust that is a nonresident under sec. 71.14(1) to (3m), Wis. Stats.

Exceptions: Withholding is not required on behalf of the following nonresident partners or members:

- A partner or member who is not otherwise subject to Wisconsin income or franchise tax (such as a 501(c)(3) organization with no unrelated business taxable income).
- A partner or member whose share of income from the partnership is less than $1,000. (The partnership may presume that it is the only source of the nonresident partner's or member's Wisconsin income.)

The partnership uses Form PW-1 to pay the withholding. The following partnerships are not required to file Form PW-1:

- A partnership whose withholding amount computes to $0. **Exception:** If a pass-through entity (an "upper-tier" entity) is a member of another pass-through entity (a "lower-tier" entity), the upper-tier entity must file Form PW-1 even if, after the credit for tax withheld by the lower-tier entity, the withholding amount is $0.
- A joint venture that has elected not to be treated as a partnership under section 761 of the Internal Revenue Code.
- A publicly traded partnership, as defined under section 7704(b) of the Internal Revenue Code, if the entity files with the Department of Revenue an information return reporting the name, address, taxpayer identification number and any other information requested by the department. The Wisconsin Schedules 3K-1 filed with Form 3 are sufficient information returns for purposes of this exception.

Form PW-1 is due with payment by the 15th day of the 4th month following the close of the partnership's taxable year. It must generally be filed, and payment must be made, by electronic means unless electronic filing and payment presents an undue hardship. See the Form PW-1 instructions for details of the filing procedures.

Caution: Nonresidents with a Wisconsin filing requirement must file the appropriate Wisconsin income or franchise tax return.

Composite Return for Nonresident Partners

A partnership that operates in Wisconsin and has **two or more** nonresident partners who derive no taxable income or deductible loss from Wisconsin other than their distributive shares of the partnership's Wisconsin income or loss may file a composite individual income tax return on behalf of those partners. The partnership files this return on Form 1CNP.

A partner may not participate in this composite return if –

- The partner is a partnership, corporation, estate, or trust, including a grantor trust.
- The partner files his or her individual income tax return on a fiscal year basis.
- The partner is a Wisconsin resident during any part of 2006.
- The partner derives taxable income from Wisconsin in 2006 other than his or her distributive share of partnership income or loss from one partnership.
- The partner wishes to claim any deductions or tax credits.

Each qualifying and participating partner's distributive share of partnership income or loss for a partnership's taxable year ending between January 31, 2006, and December 31, 2006, is reported on a 2006 Form 1CNP. The composite return replaces the separate 2006 Wisconsin individual income tax returns that otherwise would be filed by each of the qualifying and participating nonresident partners. The 2006 Form 1CNP is due April 16, 2007.

Wisconsin Use Tax

Use tax is the counterpart of sales tax. All tangible personal property and selected services, taxable under Wisconsin's sales tax law, which are stored, used, or consumed in Wisconsin, are subject to use tax if the proper sales tax is not paid. Examples of purchases that frequently result in a use tax liability include the following:

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

If you hold a seller's permit, use tax certificate, or consumer's use tax certificate, report your use tax on your sales and use tax return, Form ST-12. Otherwise, complete and file Form UT-5 to report use tax.

For more information or forms, visit the Department's web site at www.revenue.wi.gov/html/sales.html, call (608) 266-2776, e-mail sales10@dor.state.wi.us, or write to the Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8949, Madison, WI 53708-8949.

Line-by-Line Instructions

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

The numbering on the Wisconsin Form 3 corresponds with the line numbers on the federal partnership Schedule K, unless otherwise indicated.

■ **Period Covered** – File a 2006 Wisconsin return for calendar year 2006 and fiscal years that begin in 2006. For a fiscal year or short taxable year, fill in the taxable year beginning and ending dates in the taxable year space at the top of the form. If the partnership terminated, enter the termination date as the ending date.

■ **Name and Address** – Using black ink, print or type the partnership's name and address.

■ **A. Federal Employer Identification Number** – Enter the partnership's federal employer identification number (EIN).

■ **B. Business Activity (NAICS) Code** – Enter the partnership's principal business activity code, based on the North American Industry Classification System (NAICS), from your federal return.

■ **C. State of Formation and Year** – Enter the 2-letter postal abbreviation for the state (or name of the foreign country) under whose laws the partnership was organized and the year of formation.

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

■ **E. Amended Return** – If this is an amended return, check the box. Circle the line number of the lines you are changing and attach a detailed explanation of the changes made, including any supporting form or schedule.

■ **F. Extended Due Date** – If the partnership has an extension of time to file its Wisconsin return, check the box and enter the extended due date.

■ **G. Partnership Termination** – Check here if the partnership terminated during the taxable year.

■ **H. Filing Form 1CNP** – If the partnership is filing a composite Wisconsin income tax return, Form 1CNP, on behalf of its qualified and participating nonresident partners, check the box.

■ **I. Request for 2007 Forms** – Check the box if you want the Department to send you partnership forms for 2007.

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

■ **K. Number of Partners** – Enter the total number of partners that the partnership had during the taxable year. Also enter the total number of nonresident partners that the partnership had during the taxable year, including individuals, estates, and trusts not domiciled in Wisconsin and other partnerships, limited liability companies, and corporations whose commercial domicile is not in Wisconsin.

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

IMPORTANT – The Wisconsin partnership law is based on the federal Internal Revenue Code (IRC). However, Wisconsin income must be figured using the Internal Revenue Code as amended to December 31, 2004, with the exceptions listed below. The Internal Revenue Code generally applies for Wisconsin purposes at the same time as for federal purposes.

Computing Federal Income for Wisconsin Purposes

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

- Section 13113 of Public Law 103-66, Omnibus Budget Reconciliation Act of 1993, enacted August 10, 1993, relating to the exclusion of 50% of the gain from the sale or exchange of qualified small business stock held more than 5 years.
- Sections 1, 3, 4, and 5 of Public Law 106-519, FSC Repeal and Extraterritorial Income Exclusion Act of 2000, enacted November 15, 2000, relating to the allowance of an exclusion for extraterritorial income. Foreign sales corporation (FSC) treatment is repealed for Wisconsin for taxable years beginning on or after January 1, 2005.
- Section 162 of Public Law 106-554, Community Renewal Tax Relief Act of 2000, enacted December 21, 2000, and section 308 of Public Law 108-311, Working Families Tax Relief Act of 2004, enacted October 4, 2004, relating to the expensing of environmental remediation costs and the extension of the termination date.
- Section 165 of Public Law 106-554, Community Renewal Tax Relief Act of 2000, enacted December 21, 2000, and section 306 of Public Law 108-311, Working Families Tax Relief Act of 2004, enacted October 4, 2004, relating to the enhanced deduction for corporate donations of computer technology and the extension of the termination date.
- Public Law 106-573, Installment Tax Correction Act of 2000, enacted December 28, 2000, relating to the restoration of the installment method of accounting for accrual basis taxpayers. For Wisconsin purposes, accrual basis taxpayers cannot use the installment method for reporting sales and other dispositions occurring on or after December 17, 1999. Gain from the sale of property must be recognized in the year of the sale, rather than when the payments are received.
- Section 101 of Public Law 107-147, Job Creation and Worker Assistance Act of 2002, enacted March 9, 2002, section 201 of Public Law 108-27, Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted May 28, 2003, and section 403(a) of Public Law 108-311, Working Families Tax Relief Act of 2004, enacted October 4, 2004, relating to the 30% bonus depreciation allowance for qualified property acquired after September 10, 2001.
- Section 201 of Public Law 108-27, Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted May 28, 2003, relating to the 50% bonus depreciation allowance for qualified property acquired after May 5, 2003.
- Section 202 of Public Law 108-27, Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted May 28, 2003, relating to increased section 179 expensing for small business, and section 201 of Public Law 108-357, American Jobs Creation Act of 2004, enacted October 22, 2004, relating to the extension of the termination date.
- Section 1201 of Public Law 108-173, Medicare Prescription Drug, Improvement, and Modernization Act of 2003, enacted December 8, 2003, relating to health savings accounts.
- Section 244 of Public Law 108-357, American Jobs Creation Act of 2004, enacted October 22, 2004, relating to special rules for certain film and television productions.
- Section 336 of Public Law 108-357, American Jobs Creation Act of 2004, enacted October 22, 2004, relating to the depreciation allowance for aircraft.
- Section 337 of Public Law 108-357, American Jobs Creation Act of 2004, enacted October 22, 2004, relating to the modification of the placed in service rule for purposes of bonus depreciation.

- Section 909 of Public Law 108-357, American Jobs Creation Act of 2004, enacted October 22, 2004, relating to sales or dispositions to implement Federal Energy Regulatory Commission or state electric restructuring policy.

- Section 910 of Public Law 108-357, American Jobs Creation Act of 2004, enacted October 22, 2004, relating to the expansion of the limitation on depreciation of certain passenger automobiles.

Federal law changes enacted after December 31, 2004, won't apply for Wisconsin purposes unless subsequently adopted by the Wisconsin Legislature. For example, Public Law 109-58, Energy Tax Incentives Act of 2005, enacted August 8, 2005, Public Law 109-59, Safe, Accountable, Flexible, Efficient Transportation Equity Act of 2005, enacted August 10, 2005, Public Law 109-73, Katrina Emergency Tax Relief Act of 2005, enacted September 23, 2005, Public Law 109-135, Gulf Opportunity Zone Act of 2005, enacted December 21, 2005, Public Law 109-222, Tax Increase Prevention and Reconciliation Act of 2005, enacted May 17, 2006, and Public Law 109-280, Pension Protection Act of 2006, enacted August 17, 2006, do not apply for Wisconsin purposes.

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

Section 179 Expense Differences

For Wisconsin purposes, the maximum amount of section 179 expense deduction allowable for 2003 and following years is $25,000 per year. This dollar limitation is reduced by a dollar for each dollar of the cost of qualified property placed in service during the taxable year over $200,000. Federal changes to the section 179 expense deduction enacted in 2003 do not apply for Wisconsin. The federal changes include the increase in the section 179 expense deduction from $25,000 to $100,000 ($108,000 for 2006), the increase in the phase-out threshold from $200,000 to $400,000 ($430,000 for 2006), and the treatment of off-the-shelf software as qualifying property. You must provide schedules detailing any differences between the federal and Wisconsin amounts of section 179 expense and depreciation and report the net differences as adjustments to federal income on Form 3, Schedule 3K, column c.

Depreciation and Amortization Differences and Other Modifications

For property placed in service in taxable years beginning on or after January 1, 2006, you must compute depreciation or amortization under the Internal Revenue Code as amended to December 31, 2000. For qualified property acquired after September 10, 2001, you may not claim the federal 30% bonus depreciation. The 50% additional first-year depreciation deduction may not be claimed for 50% bonus property acquired after May 5, 2003. Provide a schedule detailing any differences between federal and Wisconsin depreciation and amortization amounts. Show adjustments necessary to account for any differences between amounts reportable for federal and Wisconsin purposes on Form 3, Schedule 3K, column c.

Schedule 3K – Partners' Distributive Share Items

Schedule 3K is a summary schedule of all the partners' shares of the partnership's income, deductions, credits, etc., as computed under Wisconsin law, similar to federal Schedule K. **When completing this schedule, round amounts to the nearest dollar. Enter amounts as whole dollars only.**

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

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

> ***Caution:*** *Don't make any adjustments on Schedule 3K to exclude a nonresident or part-year resident partner's share of partnership items that are attributable to business transacted outside Wisconsin, services performed outside Wisconsin, or real or tangible personal property located outside Wisconsin and aren't taxable or deductible for Wisconsin purposes. These adjustments will be made on the Schedule 3K-1 of each affected partner, as described in the instructions for Schedule 3K-1 that follow.*
>
> *In addition, don't make any adjustments on Schedule 3K (or on Schedule 3K-1) for an individual, estate, or trust partner's 60% capital gain deduction or capital loss limitation. Instead, each partner will compute its own capital gain deduction or loss limitation on Wisconsin Schedule WD.*

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

■ **Lines 1 through 4, 6 through 13, 16, 17, and 20.** Additions to or subtractions from federal amounts may be required for the following items:

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

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

- Certain federal law changes enacted before December 31, 2004, and any changes enacted after that date don't apply for Wisconsin purposes. See page 5 for details.
- For assets first placed in service in taxable years beginning on or after January 1, 2001, you must compute depreciation or amortization under the Internal Revenue Code as amended to December 31, 2000.
- For qualified property acquired after September 10, 2001, you may not claim the federal 30% bonus depreciation. The 50% additional first-year depreciation deduction may not be claimed for 50% bonus property acquired after May 5, 2003.
- An asset placed in service before 2006 must continue to be depreciated or amortized under the method allowable for Wisconsin purposes for the year in which it was placed in service.
- An adjustment is required in the year of the disposition of an asset if its basis differs for federal and Wisconsin purposes due to a law difference in a prior year.

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

Examples of different elections include the following:

- For assets placed in service in taxable years beginning before January 1, 2001, a partnership could compute depreciation or amortization under either the Internal Revenue Code in effect for the year for which the return was filed or the Internal Revenue Code as amended to a specific date, at the taxpayer's option. An asset placed in service before 2001 must continue to be depreciated or amortized under the method elected for Wisconsin purposes for the year in which it was placed in service.

- For property placed in service after December 31, 1982, a taxpayer that claimed investment tax credit for federal purposes could either (a) claim the full 10% credit and reduce the depreciable basis of the property by one-half of the credit, or (b) in the case of regular investment tax credit property, claim a reduced credit and depreciate the full cost of the property. A partnership that claimed the regular investment tax credit and reduced the depreciable basis of the property for federal purposes could compute depreciation on the full (unreduced) basis of the property for Wisconsin purposes.
- Wages that aren't deductible for federal purposes because they were used in computing the federal work opportunity tax credit may be deducted for Wisconsin purposes.

3. *Adjustments required for modifications prescribed in Wisconsin law*

Most modifications required to figure a partner's Wisconsin net income are computed by that partner rather than at the partnership level. This includes many of the modifications prescribed in sec. 71.05(6) to (12), (19), and (20), Wis. Stats. However, several types of modifications may be reportable by the partnership in column c. The following modifications are additions to ordinary income reportable on line 1, column c:

- The amount of development zones credits computed by the partnership.
- The amount of technology zone credit computed by the partnership.
- The amount of manufacturer's sales tax credit passed through from other entities whose taxable year began prior to January 1, 2006, and ended in 2006.
- The amount of dairy and livestock farm investment credit computed by the partnership.
- The amount of early stage seed investment credit computed by the partnership.
- The amount of angel investment credit computed by the partnership.
- State taxes and taxes of the District of Columbia that are value-added taxes, single business taxes, or taxes on or measured by all or a portion of net income, gross income, gross receipts, or capital stock are not deductible by partnerships.

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

In addition, certain basis differences are treated as modifications. For example, for Wisconsin purposes, property taxes paid on vacant land had to be capitalized for 1964 and prior taxable years. A transitional adjustment must be made for this basis difference upon disposition of the property. Recompute the gain or loss on federal Form 4797 or federal Schedule D, as appropriate, by substituting the Wisconsin basis for the federal basis. Show the difference as a modification in column c.

■ **Lines 5, 18a, and 20c.** Additions to or subtractions from the federal amounts may be required for the following items.

- If the interest income reported on line 5, column b, includes any interest from obligations of the United States government and its instrumentalities, identify this amount on a separate schedule for line 20c. **Do not** subtract this amount on Schedule 3K, line 5, column c.
- If the tax-exempt interest income reported on line 18a, column b, includes any interest that is exempt for federal purposes but taxable by Wisconsin, such as state and local government bond interest, report this amount as an ***addition*** on line 5, column c, and as a ***subtraction*** on line 18a, column c.

■ **Lines 18b and 18c.** Additions to or subtractions from the federal amounts may be required for the following items.

- Income reported on line 18b that is exempt for federal purposes but taxable by Wisconsin is shown as a *subtraction* in column c. If more income is nontaxable for Wisconsin purposes than for federal purposes, show the additional amount of exempt income as an *addition*. The amount under Wisconsin law in column d is the amount of tax-exempt income for Wisconsin purposes.
- Expenses on line 18c that are nondeductible federally but deductible for Wisconsin purposes are shown as *subtractions* in column c. If more expenses are nondeductible for Wisconsin purposes than for federal purposes, show the additional amount of nondeductible expenses as an *addition*. The amount under Wisconsin law in column d is the nondeductible expense for Wisconsin purposes.

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

■ **Line 15a.** Enter, in column d, the available dairy and livestock farm investment credit from Wisconsin Schedule DI, line 7. Attach Schedule DI to the Form 3 filed with the Department.

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

■ **Line 15b.** Enter, in column d, the available development zones credit from Wisconsin Schedule DC, line 5. Attach Schedule DC to the Form 3 filed with the Department.

Partners of partnerships doing business in Wisconsin development, development opportunity, enterprise development, or agricultural development zones may be eligible for tax credits based on expenditures for environmental remediation and job creation or retention. The Wisconsin Department of Commerce administers the Wisconsin development zones programs. For more information about the programs, visit the Department of Commerce web site at www.commerce.wi.gov or write to the Wisconsin Department of Commerce, P.O. Box 7970, Madison, WI 53707-7970.

■ **Line 15c.** Enter, in column d, the available development opportunity zone investment credit from Schedule DC, line 13. Attach Schedule DC to the Form 3 filed with the Department.

■ **Line 15d.** Enter, in column d, the available development opportunity zone or agricultural development zone capital investment credit from Schedule DC, line 21. Attach Schedule DC to the Form 3 filed with the Department.

■ **Line 15e.** Enter, in column d, the available technology zone credit from Wisconsin Schedule TC, line 6. Attach Schedule TC to the Form 3 filed with the Department.

Partners of partnerships doing business in Wisconsin technology zones may be eligible for a tax credit based on the property taxes paid, capital investments made, and jobs created. The Department of Commerce administers the Wisconsin technology zone program. For more information about the program, visit the Department of Commerce web site at www.commerce.wi.gov or write to the Wisconsin Department of Commerce, P.O. Box 7970, Madison, WI 53707-7970.

■ **Line 15f.** Enter, in column d, the available early stage seed investment credit from Schedule VC, line 10. Attach Schedule VC to the Form 3 filed with the Department.

Partners of partnerships making payments to a qualified fund manager for investment in a qualified new business venture may be eligible for a tax credit. The Department of Commerce administers the early stage business investment program. For more information about this program, visit the Department of Commerce web site at www.commerce.wi.gov or write to the Wisconsin Department of Commerce, P.O. Box 7970, Madison, WI 53707-7970.

■ **Line 15g.** Enter, in column d, the available angel investment credit from Schedule VC, line 4. Attach Schedule VC to the Form 3 filed with the Department.

■ **Line 15h.** Enter, in column d, the available supplement to the federal historic rehabilitation tax credit from Wisconsin Schedule HR, line 5. Attach Schedule HR to the Form 3 filed with the Department.

Partners of partnerships that rehabilitate certified historic structures located in Wisconsin and used for business purposes may claim a credit. The Wisconsin Historical Society administers the historic preservation program. For more information about this program, visit the Historical Society's web site at www.wisconsinhistory.org/hp/buildings, write to the Division of Historic Preservation, Wisconsin Historical Society, 816 State Street, Madison, WI 53706-1488, or call (608) 264-6490.

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

Fill in line 15i if –

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

Enter the name of the state in the space provided and the amount of income tax paid to that state in column d. If tax is paid to more than three states, write "See Attached" on one of the entry lines, enter the total amount on that line in column d, and attach a schedule listing all states and the amount of income tax paid to each state. Attach to Form 3 a copy of the income tax return filed with each state for which a credit is claimed.

■ **Line 15j.** If the partnership is subject to withholding tax on the Wisconsin income of nonresident partners, enter, in column d, the amount of Wisconsin tax withheld. Generally, this will be the amount the partnership paid with Form PW-1. However, if the partnership is a member of another pass-through entity that already withheld Wisconsin tax on income passed through to the partnership, also include in column d the tax withheld by that other entity on the partnership's share of income.

Caution: Don't include any cash deposits or withholding made with Form WT-11, Nonresident Entertainer's Application and Receipt for Surety Bond, Cash Deposit, or Withholding by Employer.

■ **Line 20c.** On an attached schedule, show any items and amounts not included on lines 1 through 20b that must be reported separately to the partners. Include the federal amount, any adjustment, and the amount determined under Wisconsin law for each item.

- If the partnership has manufacturer's sales tax credit passed through from another entity whose taxable year began prior to January 1, 2006, and ended in 2006, report the amount of credit on this schedule.
- If the interest income on line 5, column b, includes any interest from United States government obligations that is taxable for federal purposes but exempt from Wisconsin income taxes, report the amount of United States government interest on this schedule.
- If the partnership disposed of property for which a section 179 expense deduction was claimed in a prior year, provide the following information for each asset: description of the property; gross sales price; both the federal and the Wisconsin cost or other basis plus expense of sale (**excluding** the partnership's basis reduction in the property due to the section 179 expense deduction); depreciation allowed or allowable (**excluding** the section 179 expense deduction); and both the federal and Wisconsin amount of section 179 expense deduction passed through in previous years for the property and the partnership's taxable years for which the amounts were passed through.

■ **Line 21.** For each of columns b and d, combine lines 1 through 11. From the result, subtract the sum of lines 12 and 13a through 13d. Add or subtract, as appropriate, any income or deductions reported on line 20c that affect the computation of taxable income.

Caution: If you reported on line 20c the disposition of property for which a section 179 expense deduction was claimed in a prior year, complete federal Form 4797 to figure the amount of gain or loss to combine with the other items of income, loss, and deduction. If the federal and Wisconsin bases of the property or section 179 deductions differ, use two Forms 4797. Disregard the special instructions for partnerships and partners when filling out Form 4797. On one Form 4797, determine the federal gain or loss to combine with the other federal amounts reported in column b. Complete a second Form 4797 to compute the Wisconsin gain or loss to combine with the other Wisconsin amounts reported in column d.

■ **Line 22.** Enter the partnership's gross income that is reportable to Wisconsin. Gross income is the total amount received from all activities, before deducting the cost of goods sold or any other expenses. Gross income includes gross receipts from trade or business activities, gross rents and royalties, interest and dividends, the gross sales price of assets, and all other gross receipts. If the partnership is a member of one or more other pass-through entities, include gross income attributable to those other pass-through entities.

■ **Signatures** – A general partner of the partnership or an LLC member must sign the form on page 3. If the return is prepared by someone other than an employee of the partnership, the preparer's signature is also required.

■ **Attachments** – Attach a copy of the federal Form 1065 and supporting schedules. Also attach a copy of either Wisconsin Schedule 3K-1 or federal Schedule K-1, as appropriate, for each partner. **Do not staple, fasten, or bind these attachments to your return. Use paper clips instead.** If the partnership has a nonresident partner who is not subject to income or franchise tax, and the partnership would otherwise be subject to withholding tax based on income passed through to that partner, attach a statement from that nonresident partner stating why no tax was withheld.

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

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

Prepare a Schedule 3K-1 for each individual or entity that was a partner in the partnership at any time during the partnership's taxable year. Attach a copy of each partner's Schedule 3K-1 to the Form 3 filed with the Department. Keep a copy as part of the partnership's records, and give each partner his, her, or its own separate copy. Schedule 3K-1 must be prepared and given to each partner on or before the day on which Form 3 is filed. In addition, give each partner a copy of the "Partner's Instructions for 2006 Schedule 3K-1."

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

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

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

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

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

Part I - Information About the Partnership

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

Part II - Information About the Partner

■ **Items G through M.** Enter the information about the partner from the partner's federal Schedule K-1. **Note:** If a single member limited liability company (LLC) owns a partnership interest, and the LLC is treated as a disregarded entity for federal income tax purposes, enter the owner's identifying number in item G and the owner's name and address in item H.

■ **Item N.** Enter the information about the partner's capital account from the partner's federal Schedule K-1. Check the appropriate box indicating which method was used to determine the partner's capital account. If tax basis was used, the Wisconsin amounts may be different than the federal amounts. For example, the basis of property contributed to the partnership may have been different for Wisconsin and federal purposes, or the current year increase (decrease) may differ if a federal provision is excluded from the definition of "Internal Revenue Code" for Wisconsin purposes.

If the amounts in item N represent tax basis, attach a schedule describing any differences between the Wisconsin and federal tax basis.

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

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

■ **Item P.** Check this box only if the partner is a nonresident or part-year resident of Wisconsin during the partnership's taxable year and the partnership is a unitary, multistate partnership that must compute its Wisconsin income under the apportionment method. See "Determining the Wisconsin Income of Multistate Partnerships" on page 13. Complete Form 4B or Form 4B-1 and enter the partnership's apportionment percentage from Form 4B, line 39, or Form 4B-1, as appropriate.

■ **Item Q.** Check this box only if the partner is a nonresident or part-year resident of Wisconsin during the partnership's taxable year and the partnership is a nonunitary, multistate partnership that must compute its Wisconsin income under the separate accounting method. See "Determining the Wisconsin Income of Multistate Partnerships" on page 13. Attach a schedule, similar to Form 4C, that shows the allocation of the amount under Wisconsin law in column d of each applicable partnership item reported on Form 3, Schedule 3K, to Wisconsin and outside Wisconsin and the basis of such allocation.

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

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

Part III of Schedule 3K-1 shows each partner's proportionate share of the items reported on Wisconsin Schedule 3K. In addition, it shows a nonresident or part-year resident partner's share of a partnership's items that are reportable to Wisconsin. **When completing this schedule, round amounts to the nearest dollar. Enter amounts as whole dollars only.**

Column a – Distributive share items. Fill in the description, not the applicable code from the federal Schedule K-1, for other income, other deductions, alternative minimum tax (AMT) items, nondeductible expenses, distributions, and other information.

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

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

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

- A full-year resident of Wisconsin.
- A corporation or another partnership that is a partner.

Column e – Wisconsin source amount. **Fill in this column only for a nonresident or part-year resident of Wisconsin.** The Wisconsin source amount is that portion of a nonresident or part-year resident partner's amount from Wisconsin Schedule 3K-1, column d, that is attributable to Wisconsin. If the partnership is doing business in and outside Wisconsin, this generally will be the amount from column d multiplied by the partnership's apportionment percentage from item P. **Do not fill in column e for a partner who is a full-year resident of Wisconsin, a corporation, or another partnership.**

■ **Lines 1 through 4, 7 through 13, 16, 17, and 20.** Enter the partner's share of the federal amount, adjustment, and amount determined under Wisconsin law for each item. Enter a nonresident's or part-year resident's Wisconsin source amount.

A. Corporations and Other Partnerships

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

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

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

Combine the amounts in column b with any adjustments in column c and enter the results in column d. The amounts on Schedule 3K-1, column d, represent the partner's share of the amount determined under Wisconsin law for each item. Do not fill in column e.

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

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

Therefore, a Wisconsin resident partner's share of the adjustment and amount determined under Wisconsin law for each item is the partner's proportionate share of the adjustment and amount under Wisconsin law shown on Schedule 3K. Do not fill in column e. See the example on page 12.

C. Individual, Estate, and Trust Nonresidents of Wisconsin

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

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

However, partnership income derived from personal services, including professional services, is taxable to a nonresident partner only if that nonresident partner personally performs services in Wisconsin. The amount of personal service income attributable to the nonresident partner's services performed in Wisconsin is taxable.

Example 1. Two nonresident individuals are partners of a partnership that does business only in Wisconsin. Both nonresidents are taxed on their entire share of the partnership income for Wisconsin income tax purposes.

Example 2. A nonresident is one of two equal partners of a partnership that does business in Wisconsin and Illinois. The partnership derives 40% of its income from business activities in Wisconsin and 60% from business activities in Illinois. The Wisconsin resident partner operates the Wisconsin business. The nonresident partner operates the Illinois business. The Wisconsin resident is taxed on one-half of the total partnership income for Wisconsin income tax purposes. The nonresident is taxed on one-half of the 40% of the partnership income attributable to business activities in Wisconsin.

Example 3. A nonresident is a limited partner, with a 1% interest in partnership profits, of a partnership that derives income from real estate located in Wisconsin and in other states. The nonresident limited partner is taxed on 1% of the partnership income attributable to the real estate located in Wisconsin.

Example 4. A nonresident is a partner, with a 10% interest in partnership profits, of a certified public accounting firm that operates in and outside Wisconsin. One-fourth of the partnership's income is attributable to professional services performed in Wisconsin and three-fourths is attributable to professional services performed in other states. The nonresident partner doesn't personally perform any services in Wisconsin. The nonresident isn't subject to Wisconsin income tax on his or her proportionate share of the partnership income earned in Wisconsin.

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

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

If the partnership is a unitary, multistate business, compute the nonresident partner's Wisconsin source amount in column e of each item by multiplying the amount under Wisconsin law in column d for that item by the apportionment percentage from item P. See the example on page 12.

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

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

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

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

D. Individual Part-Year Residents of Wisconsin

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

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

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

If the partnership derives income from activities in and outside Wisconsin, a part-year resident partner computes the Wisconsin source amount in column e of each item in two parts: one for the portion of the partnership's taxable year that the partner was a resident of Wisconsin and one for the portion of the partnership's taxable year that the partner was a nonresident of Wisconsin. For this purpose, the amount of any share item is determined on a daily basis. That is, every share item is allocated between the periods during which the partner was a resident or nonresident based on the number of days during the partnership's taxable year that the partner was a resident or nonresident of Wisconsin. The partner's share of an item for each period (resident or nonresident) is figured in the same manner as that of full-year residents and nonresidents, respectively. See the example on page 12.

■ **Lines 5, 6, and 18a.** Enter the partner's share of the federal amount, adjustment, and amount determined under Wisconsin law for each item. If applicable, enter a part-year resident's or nonresident's Wisconsin source amount.

A. Corporations and Other Partnerships

A corporation's or another partnership's amount under Wisconsin law in column d is the amount determined under Wisconsin law ***before*** apportionment or separate accounting. Combine the amounts in column b with any adjustments in column c and enter the results in column d. The amounts on Schedule 3K-1, column d, should be the amounts from Schedule 3K multiplied by the partner's profit and loss percentage. Do not fill in column e. If the interest income on line 5 includes interest from U.S. government obligations in column b, report the amount of this interest on line 20.

B. Full-Year Residents of Wisconsin

Generally, intangible income, such as interest and dividends, passed through to partners who are full-year Wisconsin residents is taxable. However, the amount of interest on United States government obligations included on line 5, column d, is not taxable for Wisconsin income tax purposes and is reported on line 20. Interest on state and local government bonds generally is exempt for federal purposes but taxable by Wisconsin. Show the amount of state and local government bond interest that is taxable by Wisconsin as an *addition* on line 5, column c, and as a *subtraction* on line 18a, column c.

Enter the partner's proportionate share of the adjustment and amount determined under Wisconsin law shown on Schedule 3K. Do not fill in column e. See the example on page 12.

C. Nonresidents of Wisconsin

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

For income reported on lines 5, 6, and 18a, the adjustment in column c and the amount determined under Wisconsin law in column d are the nonresident partner's proportionate share of the amounts from Schedule 3K. For lines 5 and 6, the Wisconsin source amount to report in column e is zero. For line 18a, do not fill in column e. See the example on page 12.

D. Part-Year Residents of Wisconsin

Individuals who are part-year residents of Wisconsin must report to Wisconsin intangible income, such as interest and dividends, passed through while they were Wisconsin residents. The intangible income is allocated between the periods during which the partner was a resident or nonresident based on the number of days during the partnership's taxable year that the partner was a resident or nonresident of Wisconsin. This applies whether the partnership operated solely in Wisconsin or in and outside Wisconsin. See the example on page 12.

■ **Lines 13 and 20.** Enter the partner's share of the federal amount, adjustment, and amount determined under Wisconsin law for each item.

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

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

■ **Line 15a.** Enter the partner's proportionate share of the dairy and livestock farm investment credit from Schedule DI.

■ **Line 15b.** Enter the partner's proportionate share of the development zones credit from Schedule DC.

■ **Line 15c.** Enter the partner's proportionate share of the development opportunity zone investment credit from Schedule DC.

■ **Line 15d.** Enter the partner's proportionate share of the development opportunity zone or agricultural development zone capital investment credit from Schedule DC.

■ **Line 15e.** Enter the partner's proportionate share of the technology zone credit from Schedule TC.

■ **Line 15f.** Enter the partner's share, based on the percentage of ownership or as specially allocated in the partnership's organizational documents, of the early stage seed investment credit from Schedule VC.

■ **Line 15g.** Enter the partner's share of the angel investment credit from Schedule VC. Only individuals, fiduciaries, and partnerships and limited liability companies that are nonoperating entities are eligible for this credit.

■ **Line 15h.** Enter the partner's proportionate share of the supplement to the federal historic rehabilitation tax credit from Schedule HR.

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

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

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

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

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

■ **Line 15j.** If the partnership was required to file Form PW-1 to withhold tax on behalf of its nonresident partners, enter in column d and column e the tax withholding allocated to the partner.

■ **Lines 18b and 18c.** Enter the partner's proportionate share of the federal amount, adjustment, and amount determined under Wisconsin law from Schedule 3K for each of these items. Do not fill in column e.

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

■ **Line 19.** Enter the distributions of money and property made to each partner. Do not fill in column e.

■ **Line 20.** Complete as necessary. Include the federal amount, adjustment, amount determined under Wisconsin law, and Wisconsin source amount for each item when applicable. Attach additional schedules if more space is needed. Include the following items on line 20c:

- The amount of interest income from United States government obligations that is included on Schedule 3K-1, line 5, column d (column e for nonresidents and part-year residents of Wisconsin).
- Information on the sale, exchange, or other disposition of property for which the section 179 expense deduction was claimed.
- If manufacturer's sales tax credit was passed through from another entity whose taxable year began prior to January 1, 2006 and ended in 2006, enter the partner's share of the credit in column d. For a nonresident or part-year resident of Wisconsin, enter the amount from column d in column e. Don't apply the apportionment percentage or use the amount determined by separate accounting, regardless of the partner's state of residence.
- If the partnership is engaged in both farming and some other business activity, indicate on the Schedules 3K-1 of noncorporate partners the portion of each of the share items that is attributable to the farm operations. The partners use this information in applying the farm loss limitations.
- Any information needed by a partner to determine why the Wisconsin amount of any item differs from the federal amount.

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

■ **Line 21.** Enter the partner's proportionate share of the partnership's gross income that is reportable to Wisconsin. Gross income is the total amount received from all activities, before deducting the cost of goods sold or any other expenses. Gross income includes gross receipts from trade or business activities, gross rents and royalties, interest and dividends, the gross sales price of assets, and all other gross receipts. If the partnership is a member of one or more other pass-through entities, gross income includes the gross income attributable to those other pass-through entities.

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

Part IV – Partner's Share of Apportionment Factors

For a corporation or another partnership that is a partner, enter the partner's proportionate share of the partnership's Wisconsin and total company apportionment factors from Form 4B or Form 4B-1, if applicable.

Example of Schedule 3K-1 for Individual Partners

ABC Partnership is a calendar year multistate partnership whose income is attributable 70% to a business located in Wisconsin. There are three individual partners (A, B, and C) who each have a one-third interest in the profits and losses of the partnership. Partner A was a Wisconsin resident during all of 2006. Partner B was an Illinois resident during this period. Partner C was a resident of Wisconsin until moving to Florida on April 1, 2006. Therefore, Partner C was a part-year resident of Wisconsin during the partnership's taxable year, having been a resident for 90 days and a nonresident for 275 days.

Schedule 3K for the year ending December 31, 2006, shows the following amounts on the lines indicated.

	(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amt. under Wis. law
1	Ordinary income	$ 9,000	$ 600	$ 9,600
5	Interest income	700	300	1,000
18a	Tax-exempt interest income	300	(300)	-0-
20c	U.S. government interest included on line 5, column d: $100			

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

	(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under Wis. law	(e) Wis. source amount
1	Ordinary income	$ 3,000	$ 200	$ 3,200	
5	Interest income	233	100	333	
18a	Tax-exempt interest income	100	(100)	-0-	
20	U.S. government interest included on line 5, column d: $33				

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

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

	(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under Wis. law	(e) Wis. source amount
1	Ordinary income	$ 3,000	$ 200	$ 3,200	$2,240
5	Interest income	233	100	333	-0-
18a	Tax-exempt interest income	100	(100)	-0-	
20	U.S. government interest included on line 5, column e: $0				

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

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

Since Partner B is a nonresident of Wisconsin, the Wisconsin source amount of the interest income on line 5, column e, is zero. Do not fill in line 18a, column e.

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

	(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under Wis. law	(e) Wis. source amount
1	Ordinary income	$ 3,000	$ 200	$ 3,200	$ 2,477
5	Interest income	233	100	333	82
18a	Tax-exempt interest income	100	(100)	-0-	
20	U.S. government interest included on line 5, column e: $8				

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

Compute the Wisconsin source amounts in column e in two parts: one for the 90-day period that Partner C was a resident of Wisconsin and one for the 275-day period that Partner C was a nonresident of Wisconsin.

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

(1) For the period of residence, multiply the $3,200 amount determined under Wisconsin law of ordinary income from Schedule 3K-1, column d, by 90/365, which is the ratio of days Partner C was a resident of Wisconsin to total days in the partnership's taxable year. Add to that result the amount computed for the period of nonresidence in (2) below.

(2) For the period of nonresidence, multiply the $3,200 amount determined under Wisconsin law of ordinary income from Schedule 3K-1, column d, by ABC Partnership's 70% Wisconsin apportionment percentage. Multiply the result by 275/365, which is the ratio of days Partner C was a nonresident of Wisconsin to total days in the partnership's taxable year. This results in the following calculation:

Period of residence:	$3,200 x 90/365	=	$ 789
Period of nonresidence:	$3,200 x .7 x 275/365	=	1,688
Total			$ 2,477

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

Period of residence:	$333 x 90/365	=	$ 82
Period of nonresidence:			0
Total			$ 82

Do not fill in line 18a, column e.

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

Period of residence:	$100 x .3333 x 90/365	=	$ 8
Period of nonresidence:			0
Total			$ 8

Determining the Wisconsin Income of Multistate Partnerships

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

What Is Apportionment

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

Who Must Use Apportionment

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

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

What Is a Unitary Business

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

What Is Nonapportionable Income

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

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

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

What Is the Apportionment Percentage

For unitary, multistate businesses (except direct air carriers, motor carriers, railroads, sleeping car companies, pipeline companies, financial institutions, brokers-dealers, investment advisers, investment companies, underwriters, and telecommunications companies whose incomes are apportioned by special rules of the Department), the apportionment percentage is determined by the weighted average of the following three ratios:

1. Wisconsin tangible property to total company (partnership) tangible property, representing 20% of the apportionment percentage.
2. Wisconsin payroll to total company (partnership) payroll, representing 20% of the apportionment percentage.
3. Wisconsin sales to total company (partnership) sales, representing 60% of the apportionment percentage.

For most companies, the apportionment percentage is computed on Form 4B. However, direct air carriers, motor carriers, railroads, sleeping car companies, pipeline companies, financial institutions, brokers-dealers, investment advisers, investment companies, underwriters, and telecommunications companies should see Form 4B-1 and its instructions.

Line-by-Line Instructions for Form 4B

Part I - Nonapportionable Income (Loss)

■ **Line 1.** Enter rents and royalties received on nonbusiness tangible property in the appropriate column or columns. These are nonapportionable and follow the situs of the property.

■ **Line 2.** Enter any expenses that are directly or indirectly related to rents and royalties reported on line 1. Since such income is nonapportionable, the related expenses are nonapportionable.

■ **Line 4.** Enter all profits and losses from disposals of nonbusiness tangible property in the appropriate column or columns. Such profits and losses are nonapportionable and follow the situs of the property. Also enter on line 4 all income that is realized from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in **Wisconsin**. This income is nonapportionable and must be allocated to Wisconsin.

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

Part II - Apportionment Percentage

■ **Omission of a Factor –** Check the box if you are omitting one of the apportionment factors. If both the numerator and the denominator of a factor are zero, the factor shall be eliminated from the apportionment formula.

Where it is shown to the satisfaction of the Department that the use of one of the three factors gives an unreasonable or inequitable final average ratio because the partnership does not employ the factor to any appreciable extent in its trade or business in producing the income taxed, the factor may, with the Department's approval, be omitted in computing the partnership's apportionment percentage.

If the numerator of the sales factor is a negative number and the denominator is a positive number, a negative number, or zero, the sales factor is zero.

For taxable years beginning in 2006, if one of the apportionment factors is zero, the remaining factors shall be weighted as follows:

- If either the property factor or the payroll factor is omitted, the other factor shall represent 25% of the apportionment fraction and the sales factor shall represent 75% of the apportionment fraction.
- If the sales factor is omitted, the property factor and the payroll factor shall each represent 50% of the fraction.

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

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

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

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

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

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

■ **Line 17.** Divide line 16, column a, by line 16, column b, and multiply that amount by 100. Carry the result to 4 places to the right of the decimal point.

■ **Line 20.** Enter, for Wisconsin and the total company, the compensation paid to the company's own employees for the performance of personal services. The compensation must be related to the production of apportionable income. Compensation related to the operation, maintenance, protection, or supervision of property used in the production of both apportionable and nonapportionable income or losses must be prorated, and only the portion related to the production of apportionable income is included for Wisconsin and the total company. Compensation includes wages, salaries, commissions, and any other form of remuneration paid to employees.

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

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

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

■ **Line 21.** Enter management or service fees paid to a related corporation for the performance of personal services. The fees must be related to the production of apportionable income. Payments made to independent contractors aren't includable.

■ **Line 23.** Divide line 22, column a, by line 22, column b, and multiply that amount by 100. Carry the result to 4 places to the right of the decimal point.

■ **Lines 26 through 35.** For purposes of the sales factor, sales include, but aren't limited to, the following items related to the production of apportionable income:

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

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

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

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

Enter on lines 26a and 26b the appropriate Wisconsin destination sales. Gross receipts from the sales of tangible personal property, except sales to the federal government, are Wisconsin sales if the property is delivered or shipped to a purchaser in Wisconsin. Sales of tangible personal property picked up by the purchaser, or the purchaser's agent, at the seller's Wisconsin business location and immediately transported to the purchaser's out-of-state business location aren't Wisconsin sales. However, if the seller doesn't have nexus with the state in which the purchaser's business is located, the sales are "thrown back" to Wisconsin as discussed later. Wisconsin sales include sales of tangible personal property that are picked up by the purchaser, or the purchaser's agent, at the seller's out-of-state business location and immediately transported to the purchaser's Wisconsin business location.

Enter on line 27a sales of tangible personal property delivered to the federal government, including its agencies and instrumentalities, in Wisconsin if the property is shipped from an office, store, warehouse, factory, or other place of storage in Wisconsin. Sales to federal government locations in Wisconsin, which are shipped from an office, store, warehouse, factory, or other place of storage outside Wisconsin, aren't Wisconsin sales.

Enter on line 27b sales of tangible personal property delivered to the federal government, including its agencies and instrumentalities, outside Wisconsin if the property is shipped from an office, store, warehouse, factory, or other place of storage in Wisconsin and the seller doesn't have nexus in the destination state. These sales are included in the numerator of the sales factor at 50%.

Enter on line 27c sales, other than sales to the federal government, that are "thrown back" to Wisconsin. These are sales of tangible personal property shipped from an office, store, warehouse, factory, or other place of storage in Wisconsin to a state in which the seller doesn't have nexus. "Throwback" sales are included in the numerator of the sales factor at 50%.

Enter on line 28 the "double throwback" sales. These are sales, other than sales to the federal government, of tangible personal property by an office in Wisconsin to a purchaser in another state, but not shipped or delivered from Wisconsin, if the taxpayer doesn't have nexus in (1) the state from which the property is delivered or shipped, or (2) the destination state. "Double throwback" sales are included in the numerator of the sales factor at 50%.

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

Enter on line 30a gross receipts from the use of computer software that the purchaser or licensee uses at a location in Wisconsin. Computer software is used in Wisconsin if the purchaser or licensee uses the software in the regular course of business operations in Wisconsin, for personal use in Wisconsin, or if the purchaser or licensee is an individual whose domicile is in Wisconsin. If the purchaser or licensee uses the computer software in more than one state, the gross receipts are divided among those states having jurisdiction to impose an income tax on the taxpayer in proportion to the use of the computer software in those states. To determine computer software use in Wisconsin, the Department may consider the number of users in each state where the software is used, the number of site licenses or workstations in Wisconsin, and any other factors that reflect the use of computer software in Wisconsin.

Enter on line 30b gross receipts from the use of computer software if the taxpayer is not subject to income tax in the state in which the gross receipts are considered received, but the taxpayer's commercial domicile is in Wisconsin. "Commercial domicile" means the location from which a trade or business is principally managed and directed, based on any factors the Department determines are appropriate, including the location where the greatest number of employees of the trade or business work, have their office or base of operations, or from which the employees are directed or controlled. These gross receipts are included in the numerator of the sales factor at 50%.

Enter on line 32a gross receipts from services if the purchaser of the service received the benefit of the service in Wisconsin. The benefit of the service is received in Wisconsin if any of the following applies:

- The service relates to real property that is located in Wisconsin.
- The service relates to tangible personal property that is located in Wisconsin at the time that the service is received or tangible personal property that is delivered directly or indirectly to customers in Wisconsin.
- The service is provided to an individual who is physically present in Wisconsin at the time that the service is received.
- The service is provided to a person engaged in a trade or business in Wisconsin and relates to that person's business in Wisconsin.

If the purchaser of a service receives the benefit of the service in more than one state, the gross receipts from the service are included in the numerator of the sales factor according to the portion of the service received in Wisconsin.

Enter on line 32b gross receipts from services, if the taxpayer is not subject to income tax in the state in which the benefit of the service is received, to the extent that the taxpayer's employees or representatives performed services from a location in Wisconsin. These gross receipts are included in the numerator of the sales factor at 50%.

Enter on line 34, for both Wisconsin and the total company, other gross receipts of apportionable income that are includable in the sales factor.

These gross receipts are attributable to Wisconsin if the income producing activity that gives rise to the receipts is performed in Wisconsin. If the income producing activity is performed partly in and partly outside Wisconsin, assign receipts to Wisconsin based on the ratio of direct costs of performance in Wisconsin to the direct costs of performance in all states having jurisdiction to tax the business. For additional information, see section Tax 2.39, Wisconsin Administrative Code.

■ **Line 36.** Divide line 35, column a, by line 35, column b, and multiply that amount by 100. Carry the result to 4 places to the right of the decimal point.

■ **Line 39.** Add lines 19, 25, and 38. Enter the resulting percentage here and on Form 3S, line 3, and on Schedule 3K-1, item P.

Separate Accounting

What Is Separate Accounting

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

Who Must Use Separate Accounting

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

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

Since a partnership does not compute its income in the same manner as a regular (C) corporation, a nonunitary, multistate partnership cannot use Form 4C to determine its income attributable to Wisconsin. Instead, a partnership should prepare a 5-column schedule that provides the following information: (a) a listing of all of the distributive share items from Wisconsin Schedule 3K, column a, and any supplemental schedules, (b) the total amount from Wisconsin Schedule 3K, column d, for each of the share items, (c) the amount from column b attributable to Wisconsin, (d) the amount from column b attributable to other states, and (e) the basis for the allocation. The schedule should also include a detailed explanation of how income and expenses were allocated in and outside Wisconsin. For example, if the allocation is based on actual expenses, write "Actual" in column e. If the allocation is based on the percentage of sales at each location, enter the percentage in column e and provide details on how the percentage was computed.