

Instructions for Completing Wisconsin Schedule I – 2013

INTRODUCTION – Generally, the Wisconsin Statutes require that the computation of taxable income on the 2013 Wisconsin income tax return is to be based on the Internal Revenue Code enacted as of December 31, 2010. Changes made to the Internal Revenue Code enacted after December 31, 2010, do not apply for Wisconsin income tax purposes unless adopted by Wisconsin law.

Wisconsin law also provides that certain provisions of federal law do not apply for Wisconsin purposes (even though the provisions were enacted into federal law prior to December 31, 2010). Some of those provisions are:

- Domestic production activities deduction
- Exclusion for small business stock
- Section 179 expense

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

WHO MUST FILE – If the computation of your federal adjusted gross income or itemized deductions reflects any of the differences in Wisconsin and federal law for 2013, you must complete this schedule and attach it to your Wisconsin income tax return, Form 1 or Form 1NPR.

To the extent Schedule I adjustments in a prior year affect income or expense items in 2013 (for example, the special 50% depreciation allowance was not allowed to be claimed on property placed in service after December 31, 2009), you must also make adjustments on Schedule I for 2013.

It also may be necessary to prepare a 2013 Schedule I to adjust the amount of gain or loss reportable from sales of certain assets during 2013. See the instructions for lines 2 and 3 under **SPECIFIC INSTRUCTIONS**.

PARTNERS, BENEFICIARIES OF ESTATES AND TRUSTS, AND SHAREHOLDERS OF TAX-OPTION (S) CORPORATIONS – The income and deduction items computed on the Wisconsin returns of partnerships, estates and trusts, and tax-option (S) corporations may also be affected by the differences between Wisconsin and federal law for 2013. As a result, the distributive shares of these items which are reportable on the individual Wisconsin income tax returns of the respective partners, beneficiaries, and shareholders may differ for Wisconsin and federal income tax purposes. Such partners, beneficiaries, and shareholders should receive notification from the partnership, estate or trust, or tax-option (S) corporation of the amounts reportable for Wisconsin purposes. By comparing the amounts reportable for Wisconsin and federal purposes, the partner, beneficiary, or shareholder should determine the items which differ and make the appropriate adjustments.

SPECIFIC INSTRUCTIONS

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

INSTRUCTIONS FOR PART I

1. Fill in your 2013 federal adjusted gross income from line 37 of your federal Form 1040 (line 21 of Form 1040A if you claimed any tuition and fees or educator expenses deduction on that form).
- 2 & 3. If you sold or otherwise disposed of certain property during 2013, the gain or loss reportable from such sale may differ for Wisconsin and federal purposes due to Schedule I adjustments made in the current year or a prior year. This would occur, for example, when different rates of depreciation or amortization were allowable for Wisconsin and federal purposes.

To properly report such gain or loss on your Wisconsin return, you must first remove all gain or loss included in your federal adjusted gross income. This is done by filling in line 2a or 2b and/or line 3a or 3b. Then fill in the revised gain or loss on line 2c and/or line 3c. Enclose a revised federal Schedule D, Form 8949, Form 4684, or Form 4797 marked “Revised for Wisconsin purposes” with Form 1 or Form 1NPR.

Do not complete lines 2 and 3 if you did not make Schedule I adjustments in the current year or a prior year for the property you sold or otherwise disposed of during 2013.

5. Complete line 5 to make all other adjustments needed to convert 2013 federal adjusted gross income to the amount allowable for Wisconsin. See the listing under Section A of **ITEMS REQUIRING ADJUSTMENT**.

Note

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

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

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

Complete Col. III as follows:

- If the amounts in Col. I and Col. II are positive numbers (or one number is a positive number and the other number is zero) and the amount in Col. II is larger than the amount in Col. I, subtract Col. I from Col. II. Fill in the difference in Col. III.

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

6. The amount on line 6 is your recomputed federal adjusted gross income based on the Internal Revenue Code in effect for Wisconsin for 2013. This amount is the starting point for determining Wisconsin taxable income on Form 1.

INSTRUCTIONS FOR PART II

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

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

ITEMS REQUIRING ADJUSTMENT

Note Following are brief explanations of differences between federal and Wisconsin law which were known at the time this form was printed (November 26, 2013).

The “Federal” explanation indicates how an item is to be treated for federal income tax purposes as of December 31, 2013. The “Wisconsin” explanation indicates how the item is to be treated for Wisconsin.

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

A. ITEMS AFFECTING THE COMPUTATION OF FEDERAL ADJUSTED GROSS INCOME

1. Increase in Section 179 Expensing

- (a) Federal – For taxable years beginning in 2013, the amount that may be expensed under sec. 179, IRC, is \$500,000. The phase-out threshold is \$2,000,000. Off-the-shelf computer software and certain real property is considered qualifying property. (Public Law 112-240)
- (b) Wisconsin – The amount that may be expensed under sec. 179 is limited to \$25,000. The phase-out threshold is \$200,000. Off-the-shelf computer software and real property are not considered qualifying property.

2. Health Savings Accounts

- (a) Federal – Certain individuals may establish health savings accounts. A deduction is allowed for contributions to the account. Amounts contributed by an employer to an employee’s account are excluded from the employee’s gross income. (Public Laws 108-173 and 109-432)
- (b) Wisconsin – The federal provisions relating to health savings accounts (HSAs) apply for Wisconsin for 2013. However, an adjustment may be required if you had an HSA prior to 2011 and you were not allowed a deduction for Wisconsin for contributions to that account and you reported the earnings on the account as income. If this is the case, complete the following worksheet:

| 2013 HSA Worksheet | |
|---|----------|
| 1. Balance of HSA as of December 31, 2010, less amount distributed in 2011 and 2012. (This is the amount from line 3 of the worksheet in the 2012 Schedule I instructions.) | 1. _____ |
| 2. 2013 distributions from the HSA. Do not fill in more than the amount on line 1 . . . | 2. _____ |
| 3. Subtract line 2 from line 1 | 3. _____ |
| 4. Portion of the distribution on line 2 that was used for medical expenses. This amount can be used as an itemized deduction for medical expenses. See Item B1 | 4. _____ |
| 5. Portion of the distribution on line 2 that was <u>not</u> used for medical expenses and is included in federal income. This amount would be taxable for federal purposes but not for Wisconsin. Include on line 5 of Schedule I* | 5. _____ |
| * This amount may also be subject to a federal penalty but would not be subject to a Wisconsin penalty. | |
| Note: An adjustment will be required each year until the amount shown on line 3 is zero. Distributions from HSAs are to be allocated first to the pre-2011 balance. | |

3. Depreciation or Amortization

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

4. Transit Pass and Commuter Fringe Benefit Increased

- (a) Federal – For months beginning before January 1, 2014, the amount that may be excluded from gross income for the transit pass fringe benefit and commuter fringe benefit is increased to be equal to the parking fringe benefit (\$245 a month). (Public Law 112-240)
- (b) Wisconsin – The amount that may be excluded from gross income for the transit pass fringe benefit and the commuter fringe benefit is limited to \$130 a month.

5. Small Business Stock

- (a) Federal – An exclusion is allowed for 50% (75% for stock acquired after February 17, 2009, and on or before September 27, 2010, and 100% for stock acquired after September 27, 2010, and before January 1, 2014) of the gain from the sale or exchange of qualified small business stock acquired after August 10, 1993, and held for more than five years. A 60% exclusion applies for qualified small business stock for an entity in an empowerment zone. (Public Law 112-240)
- (b) Wisconsin – Gain from the sale or exchange of qualified small business stock is included in gross income.

6. Energy Efficient Commercial Buildings Deduction

- (a) Federal – The deduction for energy-efficient commercial building property expenditures is extended to property placed in service after December 31, 2007, and before January 1, 2014. (Public Law 110-343)
- (b) Wisconsin – The treatment of energy-efficient commercial building property expenditures is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

7. Discharges of Indebtedness on Principal Residence

- (a) Federal – Gross income does not include any amount which would be includible in gross income by reason of discharge of indebtedness if the indebtedness discharged is qualified principal

residence indebtedness which is discharged before January 1, 2014. (Public Law 112-240)

- (b) Wisconsin – The exclusion from gross income for income from discharge of indebtedness on a qualified principal residence does not apply for Wisconsin.

8. Farm Loss Limitations

- (a) Federal – The amount of farm losses that may be used to reduce other non-farming business income is limited to the greater of \$300,000 or the net farm income for the previous five years if the taxpayer receives any direct or counter-cyclical payments under Title I of the Food, Conservation, and Energy Act of 2008 or Commodity Credit Corporation loans. Any disallowed loss is treated as a deduction of the taxpayer attributable to farming business in the next taxable year. (Public Law 110-246)
- (b) Wisconsin – This farm loss limitation does not apply for Wisconsin.

9. Special Depreciation Allowance

- (a) Federal – A special 50% depreciation allowance applies to certain property placed in service before January 1, 2014 (January 1, 2015, for certain property). (Public Law 112-240)
- (b) Wisconsin – Depreciation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

10. Film and Television Productions

- (a) Federal – For productions commencing before January 1, 2014, a taxpayer may elect to treat the cost of any qualified film or television production as an expense which is not chargeable to capital account. (Public Law 112-240)
- (b) Wisconsin – The treatment of a film or television production is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

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

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

12. Domestic Production Activities Deduction

- (a) Federal – A deduction is allowed for 9% of qualified production activities income. (Public Law 108-357)
- (b) Wisconsin – The domestic production activities deduction is not allowable for Wisconsin.

13. Deduction for Endangered Species Recovery Expenditures

- (a) Federal – Endangered species recovery expenditures qualify for a deduction under sec. 175 of the Internal Revenue Code as soil and water conservation expenditures. (Public Law 110-246)
- (b) Wisconsin – Endangered species recovery expenditures do not qualify for a deduction as soil and water conservation expenditures.

14. Qualified Leasehold Improvements and Qualified Restaurant and Retail Improvement Property

- (a) Federal – The 15-year recovery period for qualified leasehold improvement property and qualified restaurant property is extended to apply to property placed in service before January 1, 2014 (Public Law 112-240)
- (b) Wisconsin – Depreciation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

15. Partial Expensing for Advanced Mine Safety Equipment

- (a) Federal – For property placed in service in 2012 and 2013, a taxpayer may elect to treat 50% of the cost of any qualified advanced mine safety equipment property as a deduction in the taxable year in which the equipment is placed in service. (Public Law 112-240)
- (b) Wisconsin – Advanced mine safety equipment is depreciated under the provisions of the Internal Revenue Code in effect on December 31, 2000.

16. Depreciation for Cellulosic Fuel Ethanol Plant Property

- (a) Federal – The depreciation deduction for cellulosic fuel ethanol plant property shall include an allowance equal to 50% of the adjusted basis of such property. (Public Law 112-240)
- (b) Wisconsin – Depreciation for cellulosic biomass ethanol plant property is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

17. Domestic Production Activities in Puerto Rico

- (a) Federal – For purposes of determining production gross receipts, Puerto Rico may be treated as part of the United States. (Public Law 112-240)
- (b) Wisconsin – The domestic production activities deduction is not allowable.

18. Amortization of Geological and Geophysical Expenditures for Certain Major Integrated Oil Companies

- (a) Federal – In the case of a major integrated oil company, any geological and geophysical expenses paid or incurred in connection with the exploration for, or development of, oil or gas within the United States shall be allowed as a deduction ratably over a 7-year period. (Public Law 110-140)
- (b) Wisconsin – Amortization is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

19. Depreciation of Race Horses

- (a) Federal – Race horses placed in service before January 1, 2014, are treated as three-year property. (Public Law 110-246)
- (b) Wisconsin – Depreciation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

20. Extension of Election to Expense Certain Refineries

- (a) Federal – The election to expense 50% of the cost of any qualified refinery property is extended to property placed in service before January 1, 2014. In the case of the construction of property subject to a written binding contract, the election is extended to property placed in service before January 1, 2010. (Public Law 110-343)
- (b) Wisconsin – The election to expense refinery property does not apply for Wisconsin.

21. Accelerated Depreciation for Smart Electric Meters and Smart Grid Systems

- (a) Federal – The cost of smart electric meters and smart grid systems may be recovered over a 10-year period. (Public Law 110-343)
- (b) Wisconsin – Depreciation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

22. Bonus Depreciation for Reuse and Recycling Property

- (a) Federal – Fifty percent bonus depreciation is allowed for qualified reuse and recycling property placed in service after August 31, 2008. (Public Law 110-343)
- (b) Wisconsin – Depreciation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

23. Deduction for Domestic Production Activities

- (a) Federal – For purposes of the domestic production activities deduction, “wages” includes compensation for services performed in the United States by actors, production personnel, directors, and producers. A qualified film includes any copyrights, trademarks, or other intangibles with respect to such film. (Public Law 110-343)
- (b) Wisconsin – The changes related to the definition of “wages” for purposes of the domestic production activities deduction do not apply for Wisconsin. Wisconsin does not allow a deduction for domestic production activities.

24. Expensing of Qualified Disaster Expenses

- (a) Federal – A taxpayer may elect to treat any qualified disaster expense as a deduction for the taxable year in which it is paid or incurred. A “qualified disaster expense” means any expenditure which is paid or incurred in connection with a trade or business or with business-related property, which is (a) for the abatement or control of hazardous substances that were released on account of a federally declared disaster occurring before January 1, 2010, (b) for the removal of debris from, or the demolition of structures on, real property damaged or destroyed as a result of a federally declared disaster, or (c) for the repair of business-related property damaged as a result of a federally declared disaster, and (d) otherwise chargeable to capital account. (Public Law 110-343)
- (b) Wisconsin – The election to treat a qualified disaster expense as a deduction is not available for Wisconsin.

25. Net Operating Losses Attributable to Federally Declared Disasters

- (a) Federal – In the case of a taxpayer who has a qualified disaster loss, such loss shall be a net operating loss carryback to each of the five taxable years preceding the loss. (Public Law 110-343)
- (b) Wisconsin – Net operating losses may not be carried back for Wisconsin.

26. Increased Expensing for Qualified Disaster Assistance Property

- (a) Federal – The maximum dollar limitation for the IRC sec. 179 expensing of depreciable qualified disaster assistance property is increased by the lesser of (a) \$100,000, or (b) the cost of the qualified sec. 179 disaster assistance property placed in service during the year. The phase-out amount is increased by the lesser of (a) \$600,000, or (b) the cost of the qualified sec. 179 disaster assistance property placed in service during the taxable year. (Public Law 110-343)
- (b) Wisconsin – The amount that may be expensed under sec. 179 is limited to \$25,000. The phase-out threshold is \$200,000.

27. Nonqualified Deferred Compensation from Certain Tax Indifferent Parties

- (a) Federal – Nonqualified deferred compensation plans maintained by foreign corporations will generally become taxable, unless the compensation is deferred 12 months or less after the end of the year that the compensation vests. The tax can also apply to partnerships with foreign partners. Deferred compensation will be taxable when the amount is determinable. (Public Law 110-343)
- (b) Wisconsin – The treatment of nonqualified deferred compensation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2006.

28. Charitable Deductions for S Corporation Shareholders

- (a) Federal – The rule allowing S corporation shareholders to take into account their prorata share of charitable deductions even if such deductions would exceed such shareholder’s adjusted basis in the S corporation applies for taxable years beginning in 2012 and 2013. (Public Law 112-240)
- (b) Wisconsin – The rule relating to treatment of charitable deductions of S corporation shareholders does not apply for Wisconsin.

29. Income Sourcing of Guarantees

- (a) Federal – Amounts received for guarantees of indebtedness is U.S. source income if paid by a U.S. person or by a foreign person where effectively connected to the conduct of trade or business in the U.S. (Public Law 111-240)
- (b) Wisconsin – The treatment of guarantees of indebtedness is determined under the provisions of the Internal Revenue Code in effect on December 31, 2008.

30. Educator Expenses

- (a) Federal – The deduction from gross income for up to \$250 of expenses paid or incurred by an eligible educator in connection with books, supplies, computer equipment and other equipment and supplementary materials used by an educator in the classroom is extended through December 31, 2013. (Public Law 112-240)
- (b) Wisconsin – The deduction from gross income for educator expenses is not allowed.

31. Deduction for Tuition and Fees

- (a) Federal – The deduction for up to \$4,000 of qualified tuition and fees paid during the taxable year in connection with enrollment at an institute of higher education is extended through December 31, 2013. (Public Law 112-240)
- (b) Wisconsin – The federal deduction for up to \$4,000 of qualified tuition and fees does not apply for Wisconsin. (**Note** Although the federal deduction for tuition and fees cannot be claimed for Wisconsin, you may qualify for a tuition deduction provided by Wisconsin law. If you claim the federal tuition and fees deduction, you must complete Schedule I to remove the federal deduction. See page 14 of the Form 1 instructions (page 17 of Form 1NPR instructions) for more information on the Wisconsin deduction for tuition paid.)

32. IRA Distribution Transferred for Charitable Purposes

- (a) Federal – Up to \$100,000 of the amount directly transferred from an IRA to a qualified charitable organization is not included in gross income. (Public Law 112-240)
- (b) Wisconsin – The amount distributed from an IRA and transferred to a qualified charitable organization is included in income.

33. Charitable Deduction for Contributions of Food Inventory

- (a) Federal – The enhanced charitable deduction for contributions of food inventory is extended through December 31, 2013. (Public Law 112-240)
- (b) Wisconsin – The enhanced charitable deduction for contributions of food inventory does not apply for Wisconsin tax purposes.

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

- (a) Federal – Taxpayers may elect to recognize gain from qualifying electric transmission transactions ratably over an eight-year period if the amount realized is used to purchase exempt utility property. (Public Law 112-240)
- (b) Wisconsin – Gain is recognized to the extent the sales price (and any other consideration received) exceeds the seller's basis in the property, unless the gain is deferred or not recognized under another tax provision.

35. Accelerated Depreciation for Indian Reservation Property

- (a) Federal – The provision allowing accelerated depreciation for business property on Indian reservations is extended through December 31, 2013. (Public Law 112-240)
- (b) Wisconsin – Depreciation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

36. Motorsports Racing Track Facility

- (a) Federal – The seven-year cost recovery period for motorsports entertainment complexes is extended through December 31, 2013. (Public Law 112-240)
- (b) Wisconsin – Depreciation is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000.

37. District of Columbia Investments

- (a) Federal – Gross income does not include qualified capital gain from the sale or exchange of any DC Zone asset acquired after January 1, 1998, and before January 1, 2012 held for more than five years. (Public Law 111-312)
- (b) Wisconsin – Capital gain from the sale or exchange of DC Zone assets is included in Wisconsin income.

38. Rollovers of Bankruptcy Payments

- (a) Federal – Qualified airline employees may contribute airline bankruptcy payment amounts to a traditional IRA as a rollover contribution. (Public Law 112-95)
- (b) Wisconsin – Airline bankruptcy payment amounts may not be contributed to a traditional IRA as a rollover contribution.

B. ITEMS AFFECTING THE COMPUTATION OF ITEMIZED DEDUCTIONS

1. Medical Expense Deduction

- (a) Federal – Any payment or distribution out of a health savings account (HSA) for qualified medical expenses shall not be treated as an expense paid for medical care for purposes of claiming an itemized deduction for medical and dental expenses. (Public Law 108-173)
- (b) Wisconsin – Wisconsin follows the federal treatment of distributions from an HSA. However, if a portion of your distribution was allocated to the balance in your HSA as of December 31, 2010, you may be able to treat all or part of the distribution as a medical expense. See the Worksheet for Item A.2.

2. Mortgage Insurance Premiums

- (a) Federal – Mortgage insurance premiums paid in connection with acquisition indebtedness for a qualified residence is treated as interest. This does not apply to mortgage insurance contracts issued before January 1, 2007, or to amounts paid or accrued after December 31, 2013. (Public Law 112-240)
- (b) Wisconsin – Mortgage insurance premiums cannot be treated as interest and cannot be used in the computation of the Wisconsin itemized deduction credit.

3. IRA Transferred for Charitable Purposes

- (a) Federal – A deduction is not allowed for amounts directly transferred from an IRA to a qualified charitable organization and excluded from income. (Public Law 112-240)
- (b) Wisconsin – The amount transferred from an IRA to a qualified charitable organization is allowed as an itemized deduction for purposes of computing the Wisconsin itemized deduction credit.

4. Donation of Conservation Property

- (a) Federal – The provision allowing individuals a deduction for up to 50% of their contribution base for the donation of conservation property (100% if a qualified farmer or rancher) is available through December 31, 2013. (Public Law 112-240)
- (b) Wisconsin – The provision allowing a deduction of 50% of the contribution base (100% if a qualified farmer or rancher) does not apply for Wisconsin. The contribution is limited by the rules for contributing appreciated property.