Partner's Instructions for 2015 Schedule 3K-1

General Instructions

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 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. File a copy of each partner's Schedule 3K-1 with 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 2015 Schedule 3K-1."

Similar to federal Schedule K-1, the partnership uses Schedule 3K-1 to report your share of the partnership's income, deductions, credits, etc., for Wisconsin purposes. Please keep it for your records. You must also file a copy of Schedule 3K-1 with your tax return if:

- You are claiming a tax credit passed through from the partnership,
- You are filing an amended return based on an amended Schedule 3K-1, or
- The partnership withheld tax on your share of the partnership's distributable income (applicable if you are not a Wisconsin resident).

Federal Schedules K-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. However, 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.

If you file federal Schedules K-1 instead of Wisconsin Schedules 3K-1, *you must state on the partner's federal Schedule K-1 that there aren't any Wisconsin adjustments or credits*.

You are liable for Wisconsin franchise or income tax on your share of the partnership income, whether or not distributed, and you must include your share on your Wisconsin franchise or income tax return if a return is required.

Inconsistent Treatment of Items – Generally, you must report partnership items shown on your Schedule 3K-1 and any accompanying schedules the same way that the partnership treated the items on its return. If your treatment is (or may be) inconsistent with the partnership's treatment, you must include a statement with your return to identify and explain any inconsistency.

Errors – If you believe the partnership has made an error on your Schedule 3K-1, notify the partnership and ask for a corrected Schedule 3K-1. Don't change any items on your copy. Be sure that the partnership sends a copy of the corrected Schedule 3K-1 to the Wisconsin Department of Revenue.

Elections – Generally, the partnership decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use. However, certain elections are made by you separately on your tax return and not by the partnership. These include elections under Internal Revenue Code section 59(e)(2), relating to the deduction of certain qualified expenditures ratably over the period of time specified in that section.

Limitations on Losses, Deductions and Credits

CAUTION: The amount of loss and deduction that you may claim on your Wisconsin return may be less than the amount reported on Schedule 3K-1. It is the partner's responsibility to consider and apply any applicable limitations.

There are three separate potential limitations on the amount of partnership losses that you may deduct on your return. These limitations and the order in which you must apply them are as follows:

1. The basis rules,
2. The at-risk limitations, and
3. The passive activity limitations.

Other limitations may apply to specific deductions. These limitations on specific deductions generally apply before the basis, at-risk, and passive loss limitations.

1. Basis Rules – Generally, you may **not** claim your share of a partnership loss (including a capital loss) to the extent that it is greater than the adjusted basis of your partnership interest at the end of the partnership's taxable year. Compute the Wisconsin adjusted basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Items that ***increase*** your basis include:

- Money and your adjusted basis in property contributed to the partnership.
- Your share of the increase in the partnership's liabilities.
- Your share of the partnership's income as computed under Wisconsin law.

Items that ***decrease*** your basis, but not below zero, include:

- Money and the adjusted basis of property distributed to you.
- Your share of the decrease in the partnership's liabilities.
- Your share of the partnership's losses as computed under Wisconsin law.
- Your share of the partnership's section 179 expense deduction.
- Your share of the partnership's nondeductible expenses.
- Your share of the supplement to the federal historic rehabilitation tax credit, early stage seed investment credit, or angel investment credit computed.

When figuring the Wisconsin adjusted basis in a multistate partnership, use your share of the total partnership amounts, as computed under Wisconsin law, rather than just the income, losses, and deductions attributable to Wisconsin activities.

2. At-Risk Limitations – For federal purposes, if you have a loss or other deduction from any activity carried on as a trade or business or for the production of income by the partnership, and you have amounts in the activity for which you aren't at risk, you generally will have to figure the allowable loss. The at-risk rules generally limit the amount of loss (including loss on disposition of assets) and other deductions (such as the section 179 expense deduction) that you can claim to the amount you could actually lose in the activity. The at-risk rules also apply for Wisconsin purposes.

3. Passive Activity Limitations – Internal Revenue Code section 469 limits the deduction of certain losses. The rules apply to partners who are individuals, estates, trusts, closely held corporations, or personal service corporations and have a passive activity loss for the taxable year. Passive activities include trade or business activities in which you didn't materially participate and rental activities, as defined in the federal regulations. Rental real estate activities in which you materially participated are not passive activities if you meet certain eligibility requirements. The partnership will identify separately each activity that may be passive to you. You must determine whether your losses are limited by the passive activity rules.

The passive activity loss limits also apply for Wisconsin purposes. However, if there are differences between your federal and Wisconsin income, you may have to recompute the amount of passive activity loss deductible for Wisconsin.

There are three types of differences between federal and Wisconsin income:

a. Schedule I adjustments,

b. Differences resulting from making different elections for federal and Wisconsin purposes, and

c. Modifications to federal adjusted gross income prescribed in section 71.05(6) to (12), (19), and (20), Wisconsin Statutes.

A Schedule I adjustment may arise if a provision of the Internal Revenue Code doesn't apply for Wisconsin or if a federal law change becomes effective at a different time for Wisconsin than for federal purposes. Modifications to federal adjusted gross income include the addition of state and local government bond interest income and the subtraction of the capital gain deduction.

For differences resulting from Schedule I adjustments or different elections, you must recompute the passive activity loss limits for Wisconsin. However, you may not recompute the loss limits for modifications. The partnership should tell you the reason for any adjustment in column (c) so that you will know whether you must recompute the passive activity loss limits.

Specific Instructions

Information About the Partnership

■ Enter the information about the partnership from the partner's federal Schedule K-1.

Information About the Partner

■ Enter the information about the partner from the partner's federal Schedule K-1.

Information About the Entity

■ If the partnership is aware that the partner is a disregarded entity or grantor trust, enter the name of the member or grantor to whom the income on Schedule 3K-1 will be reported. If you enter this information, it is less likely that the Department of Revenue will need to contact you or the partner to verify that the proper amount of income is reported.

■ **Item A.** Check the appropriate box to indicate what type of entity this partner is. Use the other box if the entity type is not listed, or to list additional information.

■ **Item B.** 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.

■ **Items C and D.** Enter the information about the partner from the partner's federal Schedule K-1.

■ **Item E.** 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 E represent tax basis, submit a schedule describing any differences between the Wisconsin and federal tax basis.

■ **Item F.** If the partner is an individual, 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 G.** If the partner is a nonresident individual or part-year Wisconsin resident individual during the partnership's taxable year and the partnership is a unitary, multistate partnership using apportionment, complete Form A-1, *Wisconsin Apportionment Data for Single Factor Formulas*, or Form A-2, *Wisconsin Apportionment Data for Multiple Factor Formulas*. Enter the partnership's apportionment percentage from Form A-1 or Form A-2, as appropriate.

■ **Item H.** Check this box only if the partner is a nonresident individual or part-year Wisconsin resident during the partnership's taxable year and the partnership is a nonunitary, multistate partnership using the separate accounting method. Prepare and submit a schedule, similar to Form C, 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 I.** Check this box if the partner is a nonresident who has received an approved Form PW-2 to claim exemption from pass-through entity withholding or received a continuous PW-2 exemption letter from the department. You must keep a copy of the approved Form PW-2, Part 2 or continuous PW-2 exemption letter to substantiate the withholding exemption. However, the partnership generally must still report that partner on Form PW-1 to disclose that the withholding exemption was claimed. See the Form PW-1 instructions for further details.

Schedule 3K-1, Columns (a) Through (e)

Column (a) – Distributive Share Items. These item descriptions are substantially identical to the item descriptions on federal Schedule K-1. However, on the lines for other income, other deductions, alternative minimum tax (AMT) items, nondeductible expenses, distributions, and other information, enter the actual description instead of the applicable code from the federal Schedule K-1.

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. Prepare Schedule 3K-1 – *Partners' Share of Additions and Subtractions* on pages 5 and 6 of Form 3K-1 to account for the additions and subtractions. 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 or a corporation or another partnership that is a partner.

Column (e) – Wisconsin source amount. Fill in this column only for a nonresident individual or part-year Wisconsin resident individual. The Wisconsin source amount is the portion of the partner's amount in 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 G.

CAUTION: Do not fill in column e for a partner who is a corporation, another partnership, or a full-year Wisconsin resident individual, estate, or trust.

Partners That Are Full-Year Wisconsin Resident Individuals, Estates, and Trusts

The amount in Schedule 3K-1, columns c and d should equal the amounts in Schedule 3K, columns c and d, multiplied by the partner's profit and loss sharing percentage. 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, intangible income, or professional income, unless otherwise exempt (such as United States government interest). This applies to both general partners and limited partners. *Do not fill in column e.*

Partners That Are Nonresident Individuals, Estates, and Trusts

The amount in Schedule 3K-1, columns c and d should equal the amounts in Schedule 3K, columns c and d, multiplied by the partner's profit and loss sharing percentage. The partner uses the information from Schedule 3K-1, column d, to calculate the Wisconsin basis in the partnership. However, in column e, you will need to fill in the Wisconsin source amount of the amount in column d.

If the partnership's entire income is derived from business transacted or property located in Wisconsin, enter the amount from column d in column e. In this case, the entire amount in column d is the Wisconsin source amount.

However, if the partnership derives income from business transacted or property located in and outside Wisconsin, a nonresident individual partner's Wisconsin source amount in column e is determined as explained below.

Share of Income Apportioned or Allocated to Wisconsin. A nonresident individual's share of the partnership's income derived from the following items is taxable by Wisconsin:

- Business transacted in Wisconsin.
- Services performed in Wisconsin.
- Real or tangible personal property located in Wisconsin.

Further, business income is taxable whether or not the individual partner conducts business in Wisconsin.

The nonresident individual partner's Wisconsin source amount of each of these items is the amount 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 amount in column e of each of these items by multiplying the amount in column d by the apportionment percentage from item G. If the partnership has nonapportionable income (loss) on Form 4N, line 14, compute the nonresident partner's amount in column e of any affected item by multiplying the amount of the nonapportionable item from column d, that is attributed to Wisconsin on Form 4N 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 C by the nonresident partner's proportionate share.

Personal Services Performed in Wisconsin. Partnership income derived from personal services, including professional services, is taxable to a nonresident partner only if the 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.

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.

Examples. The Wisconsin source amount of column d is determined equally for general partners and limited partners. The following examples illustrate the rules described above:

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.

Income Not Sourced to Wisconsin. Intangible income, such as interest and dividends, passed through to a nonresident partner who is an individual generally isn't taxable by Wisconsin. Gains and losses resulting from sales of stocks, bonds, or other intangibles which are passed through to nonresident partners also aren't taxable by Wisconsin. Thus, for line 5 (Interest Income) and line 6 (Ordinary Dividends), the Wisconsin source amount to report in column e is zero. For line 18a (Tax-Exempt Interest Income), do not fill in column e.

CAUTION: Regardless of any provision in the partnership agreement, a nonresident partner must limit his or her non-Wisconsin income to the same percentage that the partnership's non-Wisconsin income is to all its income. A nonresident partner also must limit 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.

Lines 1 through 13, 16, 17, and 20 – The entries on these lines show your share of the federal amount (column (b)), adjustment (column (c)), and amount reportable under Wisconsin law (column (d)) for each of the items. For nonresident and part-year resident partners, the entries also show your share of the amount attributed to Wisconsin (column (e)). For additional information about the taxation of nonresident and part-year resident partners, see the 2015 Form 3 instructions.

These amounts don't take into account limitations on losses or other items that may have to be adjusted because of the basis rules, the at-risk limitations, or the passive activity limitations.

If the amount under Wisconsin law for any share item on lines 1 through 13, 16, 17, and 20 differs from the federal amount, your Schedule 3K-1 will have an amount in column (c). You must account for this difference on your Wisconsin franchise or income tax return. How you account for the difference depends on the return you are filing, the share item, and the reason for the difference.

Column (c) for Individuals, Estates, and Trusts. If the difference in column (c) arises because a provision of the Internal Revenue Code doesn't apply for Wisconsin or a federal law change becomes effective for Wisconsin at a different time, you must complete Wisconsin Schedule I (Schedule B for estates and trusts) before filling in your Wisconsin income tax return. If the difference results from the partnership making different elections for federal and Wisconsin purposes, you must recompute the federal adjusted gross income that you report on your Wisconsin return. See the instructions for Part V – Schedule 3K-1 Partner's Share of Additions and Subtractions for more information.

If the difference is a modification allowed in computing Wisconsin adjusted gross income, the treatment depends on which share item is affected and the return you are filing:

Modifications on Lines 1, 2, 3, 4, 6, 7, 11, 12, 16, and 20:

- If you are filing Form 1, account for any modification to one of these share items by combining the amount from Schedule 3K-1, column (c), with any other Wisconsin modification and entering the total on the appropriate line of Form 1.
- If you are filing Form 1NPR, include in column B on the appropriate line of Form 1NPR, along with any other Wisconsin income or loss, the Wisconsin amount from column (e) of any share item reported on one of these lines.
- If you are filing Form 2, account for any modification to one of these share items by entering the amount from Schedule 3K-1, column (c), on Form 2, Schedule A.

Interest Income Modifications on Lines 5 and 18a:

Interest income that is exempt from federal income taxes but taxable by Wisconsin, such as state and local government bond interest, is shown as an **addition** on line 5, column (c), and as a **subtraction** on line 18a, column (c).

- If you are filing Form 1, combine the interest income amount from Schedule 3K-1, column (c), with any other interest modification and enter the total on the appropriate line of Form 1.
- If you are filing Form 1NPR, include in column B on Form 1NPR, along with any other Wisconsin interest income, the Wisconsin source amount of interest income from Schedule 3K-1, column (e).
- If you are filing Form 2, account for any modification by entering the amount from Schedule 3K-1, column (c), on Form 2, Schedule A.

Capital Gain Modifications on Lines 8 and 9:

Enter the Wisconsin amounts from column (d) (column (e) for nonresidents and part-year residents) of these share items on the appropriate lines of Wisconsin Schedule WD (Schedule WD (Form 2) for estates and trusts).

Section 1231 Gain/Loss Modifications on Line 10a:

See the instructions for Part II of Wisconsin Schedule T and recompute a federal Form 4797 as instructed.

Portion of gain on Line 10a Attributable to Gains on Sale of Farm Assets on Line 10b:

Enter portion of the net gain attributable to the sales of farm assets held more than one year. Neither include amounts treated as ordinary income for federal income tax purposes because of recapture of depreciation, or for any other reason, nor amounts treated as capital gain for federal income tax purposes from the sale or exchange of a lottery prize. "Farm assets" means livestock, farm equipment, farm real property, and farm depreciable property.

Itemized Deduction Modifications on Lines 13 and 20:

Adjust the deduction items from federal Schedule A when figuring the Wisconsin itemized deduction credit (Form 1, Schedule 1, or Form 1NPR, Schedule 1). Increase or decrease, as appropriate, the amount from federal Schedule A by the amount on Schedule 3K-1, column (c).

Column (c) for Partnerships. If you are filing Form 3, account for any difference between the Wisconsin and federal amount of a share item that is allowable in computing Wisconsin net income by entering the amount from Schedule 3K-1, column (c), on the appropriate line of Form 3, Schedule 3K, column (c).

Column (c) for Corporations. If you are filing Form 4 or 6, account for any difference between the Wisconsin and federal amount of a share item that is allowable in computing Wisconsin net income by entering the amount from Schedule 3K-1, column (c), on Schedule 4V or 4W, as appropriate if filing Form 4; otherwise enter the amounts on Form 6, Part II.

Column (c) for Tax-Option (S) Corporations. If you are filing Form 5S, account for any difference between the Wisconsin and federal amount of a share item by entering the amount from Schedule 3K-1, column (c), on the appropriate line of Form 5S, Schedule 5K, column (c).

Schedule 3K-1, Line 10b – Enter portion of the net gain attributable to the sales of farm assets held more than one year. Neither include amounts treated as ordinary income for federal income tax purposes because of recapture of depreciation, or for any other reason, nor amounts treated as capital gain for federal income tax purposes from the sale or exchange of a lottery prize. "Farm assets" means livestock, farm equipment, farm real property, and farm depreciable property.

Credits on Lines 15a through 15h – Compute the credits on lines 15a through 15h in the same manner for partners who are full-year, part-year, or nonresidents of Wisconsin.

Note: Do not multiply the partner's proportionate or specially allocated share of the credits by the partner's apportionment percentage. Nonresidents and part-year residents are eligible for the full amount of credits similar to a full-year resident.

For each credit, enter the partner's proportionate or specially allocated share of the amount on Schedule 3K. (**Note:** Only the early stage seed investment and supplement to the federal historic rehabilitation credits may be specially allocated. See the Schedule VC and HR instructions for details.) Enter the abbreviation of the credit you are claiming next to the word "schedule" on line 15. The abbreviation for each credit is located in the upper left hand corner of the credit schedule and in the instructions for Schedule 3K.

Use a separate line for each credit you are claiming. For example, if you are claiming the enterprise zone jobs credit, enter "EC" next to the "Schedule" line.

Line 15i. Credit for Tax Paid to Other States – 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, enter in column d the amount computed by multiplying the credit on Schedule 3K, line 15i, by the partner's profit and loss percentage, multiplied 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. Enter the result in column e.

Line 15j. Wisconsin Tax Withheld – Enter the amount from line 15j, column (e), on the "Wisconsin income tax withheld" line of your Wisconsin income or franchise tax return. Unless you elect to be included in a composite return (Form 1CNP), you must file a copy of Schedule 3K-1 with your Wisconsin income or franchise tax return if you claim this credit.

CAUTION: Do not enter your share of pass-through entity withholding as an estimated tax payment on your Wisconsin return.

Line 17. Alternative Minimum Tax Items – Instructions depend on the type of partner:

- ***Individuals, estates, and trusts*** enter the net amount from column (c) of line 17 on Wisconsin Schedule MT, line 8. If you are a nonresident of Wisconsin for any part of the partnership's taxable year, enter the difference between column (b) and column (e) on Schedule MT, line 8.
- ***Partnerships and tax-option (S) corporations*** enter the amounts from column (c) on the appropriate lines of Schedule 3K or Schedule 5K, column (c).
- ***Corporations*** may disregard this line.

Lines 18a through 18c. Tax Exempt Interest and Nondeductible Expenses – Differences in the amount of income that is exempt for federal and Wisconsin purposes are shown on lines 18a and 18b, column (c). Increases or decreases in the amount of nondeductible expenses are shown on line 18c, column (c).

Use the amount from column (d) when computing the Wisconsin basis of your partnership interest. Partners that are partnerships and tax-option (S) corporations enter the amounts from column (c) on the appropriate lines of Schedule 3K or Schedule 5K, column (c).

Line 19. Distributions – Reduce the Wisconsin basis of your partnership interest by the Wisconsin distributions shown on line 19, column (d). If these distributions exceed the Wisconsin basis of your partnership interest and you were a Wisconsin resident when you received the distributions, treat the excess as a gain from the sale or exchange of property. Enter any Wisconsin gain on the appropriate line of Wisconsin Schedule WD.

Line 20. Other Information – If applicable, the partnership has provided supplemental information or has listed in the space provided or on attached schedules your share of items not included on lines 1 through 19. Account for these items as necessary to include the taxable or deductible amount of each item as computed under Wisconsin law in your Wisconsin income.

For individuals, estates, and trusts, if line 20 includes interest income from United States government obligations, you must make an adjustment on your Wisconsin return because this income is not taxable for Wisconsin income tax purposes. If you are filing Form 1, subtract this interest income on Form 1, line 7. If you are filing Form 1NPR, don't include this interest income on Form 1NPR, line 2, column B. If you are filing Form 2, subtract the United States government interest on Schedule A, line 8.

Include the following items on line 20:

- 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 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 should provide a copy of the farmland property tax bill with the Schedule 3K-1 given to each Wisconsin partner. It isn't necessary for the partnership to submit the property tax bill with the Schedules 3K-1 sent to the Department. Partners will compute their allowable credit based on their proportionate shares of the partnership's property taxes. For additional information about farmland preservation credit, see the Wisconsin Schedule FC and FC-A instructions. 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.

Lines 21a and 21b. Related Entity Expenses – If the partnership paid, accrued, or incurred management fees or interest, rental or intangible expenses to a related person or entity, the partnership completes lines 21a and 21b, as appropriate, to separately disclose the modifications it made to those items under the Wisconsin law requiring "addback" of related entity expenses. The amounts on lines 21a and 21b should already be included in column (c) corresponding to one or more other lines of Schedule 3K-1.

Instructions for lines 21a and 21b depend on the type of partner:

- ***Individuals*** may disregard these lines.
- ***Partnerships and tax-option (S) corporations*** must enter these amounts on lines 21a and 21b of Schedule 3K or lines 18a and 18b of Schedule 5K.
- ***Corporations*** must enter the amount from line 21a on Schedule 4V if filing Form 4, or Form 6, Part II, line 2c (if not already included) and the amount from line 21b on Schedule 4W if filing Form 4, or Form 6, Part II, line 4b (if not already included), even if the net total of those amounts is zero.

Line 22. Income (Loss) – For each of columns d and e, combine lines 1 through 11. From the result, subtract the sum of lines 12 and 13. Add or subtract, as appropriate, any income or deductions reported on line 20 that affect the computation of taxable income.

If you reported on line 20 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 23. Gross Income – Individuals combine the amount from column (d) or (e), as appropriate, with gross income from other sources (if any) that is reportable to Wisconsin to determine whether they must file a Wisconsin income tax return. See the instructions for Form 1 or Form 1NPR for information about the filing requirements.

Gross income includes:

- The partner's proportionate share of the total amount received from all activities, before deducting the cost of goods sold or any other expenses.

- The partner's proportionate share of 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.
- The partner's share of guaranteed payments taxable by Wisconsin.
- If the partnership is a member of one or more other pass-through entities, the partner's share of gross income attributable to those other pass-through entities.

Lines 24 Through 26. Share of Apportionment Factors – Partnerships, corporations, and tax-option (S) corporations must generally include their share of the numerator and denominator of the partnership's apportionment factors in the numerator and denominator of their apportionment factors. Include these amounts on Form A-1, *Wisconsin Apportionment Data for Single Factor Formulas* or Form A-2, *Apportionment Data for Multiple Factor Formulas*, as appropriate. For a corporation or another partnership that is a partner, enter on lines 24 through 26 the partner's proportionate share of the partnership's apportionment factors from Form A-1 or Form A-2 (if applicable). If the partnership only has one apportionment factor (for example, the single sales factor apportionment formula), leave lines 25 and 26 blank.

An example of how to complete Schedule 3K-1 for Wisconsin resident individual partners, nonresident individual partners, and part-year Wisconsin resident individual partners, appears below.

Example of Schedule 3K-1 for Individual Partners

ABC Partnership is a calendar year partnership whose income is attributable 70% to a business located in Wisconsin. There are three individual partners, each with a one-third interest in the profits and losses of the partnership. Partner A was a Wisconsin resident during all of 2015. Partner B was an Illinois resident during all of 2015. Partner C was a resident of Wisconsin until moving to Florida on April 1, 2015. Therefore, Partner C was a Wisconsin resident for 90 days (January 1 through March 31) and a nonresident for 275 days (April 1 through December 31).

Schedule 3K for the year ending December 31, 2015, shows the following amounts on the lines indicated:

Schedule 3K

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

The Partners' Schedules 3K-1 would show the following:

Partner A's Schedule 3K-1

(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under WI law	(e) WI 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, col. d			33	

Partner B's Schedule 3K-1

(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under WI law	(e) WI 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, col. d			33	0

Partner C's Schedule 3K-1

(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under WI law	(e) WI 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, col. d			33	8

Following are explanations of the Schedule 3K-1 amounts:

Partner A. The amounts in column d are computed by multiplying the amounts from Schedule 3K by Partner A's 33.33% profit and loss percentage. Column e is blank since Partner A is a full-year Wisconsin resident.

Partner B. The amounts in columns b, c, and 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, the Wisconsin source amount of the interest income on line 5, column e, is zero. Do not fill in line 18a, column e.

Partner C. The amounts in columns b, c, and 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 period that Partner C was a Wisconsin resident and one for the period that Partner C was a nonresident. Do not fill in line 18a, column e. The computations of Partner C's amounts in column e are shown below:

Partner C's Line 1: Ordinary Income		
Period of residence	$3,200 x 90/365	= $789
Period of nonresidence	$3,200 x .7 x 275/365	= $1,688
Total		= $2,477

Partner C's Line 5: Interest Income		
Period of residence	$333 x 90/365	= $82
Period of nonresidence		-0-
Total		= $82

Partner C's U.S. Government Interest for Line 20		
Period of residence	$100 x .3333 x 90/365	= $8
Period of nonresidence		-0-
Total		= $8

Part V – Partners' Share of Additions and Subtractions

The purpose of this schedule is to provide detail for the amounts entered on lines 1 through 13c, column c, of Schedule 3K-1, Part III. The total amount from this schedule should equal the amount of the adjustments reported on lines 1 through 13c in column c of Schedule 3K-1, Part III.

For many situations, the amounts from the additions/subtractions schedule will be entered in column c, line 1 or 2 of Schedules 3K and 3K-1.

If a taxpayer only has ordinary income, the net addition/subtraction will be entered on line 1, column c of Schedules 3K and 3K-1. Conversely, if the taxpayer only has net rental income, the net addition/subtraction will be entered on line 2, column c of those schedules.

If the taxpayer has both ordinary business income and rental real estate income, the net addition/subtraction should be allocated between column c, lines 1 and 2 of Schedules 3K and 3K-1.

For situations where a taxpayer has multiple sources of income and is required to make numerous adjustments in column c, the appropriate addition/subtraction adjustment should be made on each income/expense line in column c of Schedules 3K and 3K-1. The total adjustments made to column c should equal the total adjustment on the new addition/subtraction schedule.

Line-by-Line Instructions

■ **Line 1. State Taxes –** Enter taxes imposed by Wisconsin, any other state, and the District of Columbia that are value-added taxes, single business taxes, or taxes on or measured by net income, gross income, gross receipts, or capital stock and that were deducted in computing federal taxable income.

■ **Line 2. Related Entity Expenses –** A partnership must make an addition modification to "add back" expenses attributable to transactions with related parties. The expenses that must be added back include the following, if paid, accrued, or incurred to a related entity:

- Interest expenses
- Rent expenses
- Management fees
- Intangible expenses

Partnerships that are members, or beneficiaries of pass-through entities must include on line 2 their share of the pass through entity's related entity expenses shown on line 21a of Schedule 3K-1.

NOTE: If the partnership meets one of the specific conditions provided in the Wisconsin Statutes, the partnership may take a subtraction modification on line 9 for some or all of the amount added back on this line. See the instructions for line 9 for details.

Definitions Applicable to Line 2. In determining whether an addback of related entity expenses is necessary, the following definitions apply:

"Related entity" – A related person under one of the following sections of the Internal Revenue Code (IRC):

- Section 267(b), which defines relationships through which taxpayers would be considered "related" for purposes of the disallowance of deduction or loss on transactions between related taxpayers
- Section 1563, relating to controlled groups of corporations, which is incorporated into section 267 by reference
- Section 707(b), relating to partners of partnerships, which is also incorporated into section 267 by reference

A "related entity" also includes certain real estate investment trusts (REITs) if they are not "qualified REITs." For more on qualified REITs, see *Wisconsin Tax Bulletin* #158, page 17, Questions A2 and A3.

"Interest expenses" – Interest that would otherwise be deductible under section 163 of the IRC and otherwise deductible in the computation of Wisconsin income.

"Rent expenses" – Gross amounts that would otherwise be deductible under the IRC, as modified for Wisconsin purposes, for the use of, or the right to use, real property and tangible personal property in connection with real property, including services rendered in connection with such property, regardless of how reported for financial accounting purposes and regardless of how computed.

"Management fees" – Expenses and costs, not including interest expenses, pertaining to accounts receivable, accounts payable, employee benefit plans, insurance, legal matters, payroll, data processing, purchasing, taxation, financial matters, securities, accounting, or reporting on compliance matters or similar activities, to the extent that the amounts would otherwise be deductible in determining net income under the IRC as modified for Wisconsin purposes.

"Intangible expenses" – Any of the following, to the extent the amounts would otherwise be deductible in determining net income under the IRC as modified for Wisconsin purposes:

- Expenses, losses, or costs for, related to, or directly or indirectly in connection with, the acquisition, use, maintenance, management, ownership, sale, exchange, or any other disposition of intangible property
- Losses related to, or incurred in connection directly or indirectly with, factoring transactions or discounting transactions
- Royalty, patent, technical, and copyright fees
- Licensing fees

If a partnership purchases an amortizable intangible asset from a related entity, the amortization expenses on that asset are considered intangible expenses and should be added back.

Schedule RT Filing Requirement for Amount on Line 2. If the amount a partnership reports on line 2 exceeds $100,000, the partnership must file Schedule RT, *Wisconsin Related Entity Expenses Disclosure Statement*, with its return. However, for partnerships using apportionment, you may multiply the amount on line 2 by the apportionment percentage for purposes of determining whether you meet the $100,000 threshold for filing Schedule RT.

■ Line 3. Expenses Related to Nontaxable Income – Enter expenses included in federal taxable income that are directly or indirectly related to nontaxable income. Include a schedule with your return showing the payers and amounts of nontaxable income and explaining why that income isn't taxable.

Interest, dividends, and capital gains from the disposition of intangible assets are nontaxable if both of the following are true:

- The operations of the payer are not unitary with those of the payee, and
- The payer and payee are not related as parent company and subsidiary or affiliates and the investment activity from which the income is received is not an integral part of a unitary business.

Income may also 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.

Examples of expenses related to nontaxable income include taxes, interest, and administrative fees related to the production of nontaxable income.

Also enter on this line any losses included in federal taxable income from disposing of assets, if gains from disposing those assets would have been non-taxable income if the assets were disposed of at a gain.

■ **Line 4. Basis, Section 179, Depreciation Differences –**

Difference in federal and Wisconsin basis of depreciated or amortized assets:

Starting with the first taxable year beginning in 2014, adjustments are to be made over a 5-year period for the difference between the Wisconsin adjusted basis and the federal adjusted basis of assets owned on the last day of the taxable year beginning in 2013. The assets must have been depreciated or amortized for both Wisconsin and federal tax purposes. As a result of these adjustments, the Wisconsin adjusted basis and the federal adjusted basis of these assets is deemed to be equal on the first day of the taxable year beginning in 2014.

You must first determine the difference between the Wisconsin adjusted basis and the federal adjusted basis of all assets that are being depreciated or amortized on the last day of your taxable year beginning in 2013. This would be on December 31, 2013, if you file your tax return on a calendar-year basis.

If the total federal adjusted basis of the assets is more than the total Wisconsin adjusted basis, complete the worksheet below to determine the required addition to income. As result of this addition, your Wisconsin adjusted basis of all depreciated or amortized assets on the first day of your taxable year beginning in 2014 (January 1, 2014, for calendar-year filers) will be the same as the federal adjusted basis.

Note: If the total Wisconsin adjusted basis is more than total federal adjusted basis, see the instructions for line 11.

Worksheet for Difference in Basis
(Keep for your records)

1. Combined federal adjusted basis of all depreciated and amortized assets as of the last day of the taxable year beginning in 2013……………………______________
2. Combined Wisconsin adjusted basis of all depreciated and amortized assets as of the last day of your taxable year beginning in 2013……………………______________
3. Subtract line 2 from line 1…………______________
4. Multiply line 3 by .20 (20%). This is your addition to income for 2015..______________

Section 179 expenses:

For taxable years beginning on or after January 1, 2014, sections 179, 179A, 179B, 179C, 179D, and 179E of the Internal Revenue Code, related to expensing of depreciable business assets, apply for Wisconsin tax purposes. "Internal Revenue Code" means the federal Internal Revenue Code in effect for the year in which the property is placed in service.

For further information about the differences between the limitations for federal and Wisconsin purposes, see the section titled *Conformity with Internal Revenue Code and Exceptions* in the Form 3 instructions.

Depreciation/Amortization:

Also enter the amount by which the federal deduction for depreciation or amortization exceeds the Wisconsin deduction. Include a schedule showing the computation details.

These differences can happen because of IRC sections not adopted for Wisconsin purposes and also because of differences that existed between Wisconsin and federal law for assets placed in service before January 1, 1987.

For 2014 and beyond, bonus depreciation was reinstituted by the federal government, and an adjustment is required to account for the depreciation difference because Wisconsin has not adopted federal bonus depreciation provisions. For Wisconsin purposes, depreciation, depletion, and amortization is computed based on the Internal Revenue Code in effect on January 1, 2014, and bonus depreciation was not in effect on that date.

■ **Line 5. Amount by Which the Federal Basis of Assets Disposed of Exceeds the Wisconsin Basis –** Enter the amount by which the federal basis of assets disposed of exceeds the Wisconsin basis. If more than one asset is disposed of, you may combine the bases of the assets so that you need only one entry on either this line. Provide a schedule showing the computation details.

For example, assume a partnership sold the following assets during the current taxable year:

	Federal Basis	**Wisconsin Basis**	**Difference**
Equipment	$1,500	$500	$1,000
Machinery	1,000	2,000	(1,000)
Building	20,000	10,000	10,000
Totals	$22,500	$12,500	$10,000

The amount to enter would be $10,000. If the Wisconsin bases of the assets had exceeded the federal bases, an entry would be made on line 12.

■ **Line 6. Addition for Credits Computed –** Enter the total amount of credits from the list provided that you computed on your 2015 return.

■ **Line 6a.** Community rehabilitation program credit (Sch. CM, line 5 or 5b)

■ **Line 6b.** Development zones credits (Sch. DC, lines 7 or 7b and 15 or 15b,)

■ **Line 6c.** Economic development credit (Sch. ED, line 4 less line 3 or line 4b less line 3)

■ **Line 6d.** Enterprise zone jobs credit (Sch. EC, line 3 or 3b)

■ **Line 6e.** Jobs tax credit (Sch. JT, line 5 or 5b)

■ **Line 6f.** Manufacturing and agriculture credit (2014 Sch. MA-M and MA-A, lines 18 or 18b)

■ **Line 6g.** Manufacturing investment credit (Sch. MI, line 4 or 4b)

■ **Line 6h.** Research credits (Sch. R, line 16 or 16b)

■ **Line 6i.** Technology zone credit (Sch. TC, line 6 or 6b)

■ **Line 7. Other Additions –** Enter any other additions that have not been accounted for in the preceding lines.

■ **Line 9. Related Entity Expenses Eligible for Subtraction –** If the partnership made an addition modification for related entity expenses on line 2, this is where you report the amount that qualifies for a deduction. Enter the amount of the expenses from line 2, that are deductible using the criteria described in *Conditions for Deducting Related Entity Expenses*, below.

For partnerships that are members, partners or shareholders of pass-through entities, also include the amount of allowable related entity expense reported on line 21b of Schedule 3K-1 and line 18b of Schedule 5K-1.

Conditions for Deducting Related Entity Expenses. Section 71.80(23)(a)3., Wis. Stats., provides that a related entity expense that was added back on line 2, qualifies for a deduction if all of the following conditions are met:

- The primary motivation for the transaction was one or more business purposes other than the avoidance or reduction of state income or franchise taxes;
- The transaction changed the economic position of the taxpayer in a meaningful way apart from tax effects; and
- The expenses were paid, accrued, or incurred using terms that reflect an arm's length relationship.

Factors that may indicate that the expense does not qualify for a deduction include the following:

- There was no actual transfer of funds from the taxpayer to the related entity, or the funds were substantially returned to the taxpayer, either directly or indirectly.
- If the transaction was entered on the advice of a tax advisor, the advisor's fee was determined by reference to the tax savings.
- The related entity does not regularly engage in similar transactions with unrelated parties on terms substantially similar to those of the subject transaction.
- The transaction was not entered into at terms comparable to arm's length as determined by Treas. Reg. 1.482-1(b).
- There was no realistic expectation of profit from the transaction apart from the tax benefits.
- The transaction resulted in improper matching of income and expenses.
- An expense for the transaction was accrued under FIN 48.

The statutes (sec. 71.80(23)(a)1. and 2., Wis. Stats.) provide some additional conditions under which a related entity expense may qualify for a deduction, subject to some important exceptions. Those conditions are:

- If the expense was paid to a related entity that is merely acting as a conduit between the taxpayer and an unrelated entity, or
- If the related entity was subject to a tax measured by net income or receipts and the net income or receipts of the transaction were included in its tax base.

More Information on Related Entity Expenses. For more information on the deductibility of related entity expenses, see the Schedule RT instructions. Even if you weren't required to file Schedule RT for the expenses, the instructions to Schedule RT provide helpful information regarding deductibility of related entity expenses.

■ **Line 10. Income from Related Entities Whose Expenses Were Disallowed –** If the partnership has income from a related entity which paid, accrued, or incurred expenses to the partnership, and that related entity could not deduct those expenses according to the instructions for line 2, the partnership may subtract the corresponding income from its taxable income.

In order to claim a subtraction on line 10, the partnership must obtain Schedule RT-1 from the related entity and submit Schedule RT-1. See the Schedule RT-1 instructions for further details.

■ **Line 11. Basis, Section 179, Depreciation Difference, Amortization of Assets –**

Difference in federal and Wisconsin basis of depreciated or amortized assets:

Starting with the first taxable year beginning in 2014, adjustments are to be made over a 5-year period for the difference between the Wisconsin adjusted basis and the federal adjusted basis of assets owned on the last day of the taxable year beginning in 2013. The assets must have been depreciated or amortized for both Wisconsin and federal tax purposes. As a result of these adjustments, the Wisconsin adjusted basis and the federal adjusted basis of these assets is deemed to be equal on the first day of the taxable year beginning in 2014.

You must first determine the difference between the Wisconsin adjusted basis and the federal adjusted basis of all assets that are being depreciated or amortized on the last day of your taxable year beginning in 2013. This would be on December 31, 2013, if you file your tax return on a calendar-year basis.
If the total federal adjusted basis of the assets is less than the total Wisconsin adjusted basis, a subtraction must be claimed to adjust for this difference. As result of this subtraction, your Wisconsin adjusted basis of all depreciated or amortized assets on the first day of your taxable year beginning in 2014 (January 1, 2014, for calendar-year filers) will be the same as the federal adjusted basis.

Note: If the total Wisconsin adjusted basis is less than total federal adjusted basis, see the instructions for line 4.

Worksheet for Difference in Basis
(Keep for your records)

1. Combined Wisconsin adjusted basis of all depreciated and amortized assets as of the last day of the taxable year beginning in 2013………………..._______________
2. Combined federal adjusted basis of all depreciated and amortized assets as of the last day of your taxable year beginning in 2013……………...…_______________
3. Subtract line 2 from line 1……..…_______________
4. Multiply line 3 by .20 (20%). This is your subtraction for 2015……..…_______________

Also enter the amount by which the Wisconsin deduction for depreciation or amortization exceeds the federal deduction for depreciation or amortization. Include a schedule showing the computation details.

These differences can happen because of IRC sections not adopted for Wisconsin purposes and electing a different depreciation method under the Internal Revenue Code in effect for Wisconsin purposes.

■ **Line 12. Amount by Which the Wisconsin Basis of Assets Disposed of Exceeds the Federal Basis –** Sales of assets with different Wisconsin basis than federal basis will also require you to make adjustments in column c. For example, a partnership sold the following assets, which had been held more than one year:

	Selling Price	**Wisconsin Basis**	**Federal Basis**
Equipment	$1,000	$1,500	$500
Machinery	15,000	5,000	17,500
Building	200,000	150,000	120,000

The gains (losses) realized on these transactions are –

	Wisconsin Gain (Loss)	**Federal Gain (Loss)**
Equipment	($500)	500
Machinery	10,000	(2,500)
Building	50,000	80,000
Total	$59,500	$78,000

The partnership must recompute a federal Form 4797, substituting the Wisconsin depreciation allowed or allowable and Wisconsin basis of the assets for the federal amounts.

For federal purposes, the $500 gain on the sale of the equipment is determined to be depreciation recapture, which is treated as ordinary gain and included in the partnership's ordinary income or loss on Form 3, Schedule 3K, line 1, column b.

For Wisconsin purposes, $5,000 of the gain on the sale of the machinery is determined to be depreciation recapture, which is treated as ordinary gain.

The partnership enters $4,500 ($5,000 Wisconsin ordinary gain minus $500 federal ordinary gain) on Schedule 3K, line 1, column c. The partnership makes the following entries on Schedule 3K, line 10a: $77,500 in column b, $(23,000) in column c, and $54,500 in column d.

■ **Line 13. Federal Work Opportunity Credit Wages –** Enter wages that aren't deductible in computing federal income because they are being used in computing the federal work opportunity tax credit.

■ **Line 14. Federal Research Credit Expenses –** Enter research expenses that aren't deductible in computing federal income because they are being used in computing the federal credit for increasing research activities.

■ **Line 15. Other Subtractions –** Enter any other subtractions that have not been accounted for in the preceding lines.

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 the share of partnership income taxable to partners that are nonresident or part-year resident individuals or fiduciaries. The partnership must use either the apportionment method or the separate accounting method to allocate a portion of its income to Wisconsin.

Who Must Use 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. 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.

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.

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 the Apportionment Percentage

For unitary, multistate businesses (except direct air carriers, interstate air freight forwarders affiliated with a direct air carrier, motor carriers, railroads, 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 ratio of Wisconsin sales to total company (partnership) sales.

For most companies, the apportionment percentage is computed on Form A-1. Refer to the Wisconsin Form A-1 instructions for calculating the Wisconsin apportionment percentage. However, direct air carriers, interstate air freight forwarders affiliated with a direct air carrier, motor carriers, railroads, pipeline companies, and telecommunications companies should see Form A-2 and its instructions.

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.

Separate Accounting

A partnership engaged in a nonunitary business in and outside Wisconsin must 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. Under separate accounting, the partnership must keep separate records of the sales, cost of sales, and expenses for the Wisconsin business.

A unitary business may use separate accounting only with the approval of the Department. A request for 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 3-107, PO 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 corporation, a partnership cannot use Form C to determine its income attributable to Wisconsin. Instead, a partnership using separate accounting 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 a percentage of sales at each location, enter the percentage in column e and provide details on how the percentage was computed.