Instructions for 2016 Schedule QI

Purpose of Schedule QI

Schedule QI is used to:

- Claim an exclusion for qualifying long-term capital gain from the sale of an investment in a qualified Wisconsin business.
- Adjust the gain or (loss) on the sale of an investment in a qualified Wisconsin business where the investor previously deferred long-term gain that was invested in a qualified Wisconsin business.

Who May File Schedule QI

Schedule QI must be filed by individuals, including individual partners or members of a partnership, limited liability company, limited liability partnership, or shareholders of a corporation, to claim the long-term capital gain exclusion.

A separate Schedule QI must be filed for each sale involving a qualified Wisconsin business that is eligible to exclude long-term capital gain.

- If the sale in the qualified Wisconsin business includes more than one investment, only file one Schedule QI to reflect the entire sale, even if there are multiple investments that qualify to exclude long-term capital gain. See note below.
- For each different date a sale occurs in a qualified Wisconsin business, a separate Schedule QI must be filed.

Note See Example 1 on page 2 of the instructions under C Corporations. This example reflects purchases of shares on 5-31-2011 and 6-30-2011 that qualify for a long-term capital gain exclusion. The sale of the investment includes the sale of all 900 shares purchased in 2009 through 2012. Even though there are two qualified Wisconsin investments from 2011, the sale of the investment is only in one qualified Wisconsin business and, therefore, only one Schedule QI should be filed for the entire sale of the investment.

General Instructions

Exclusion of gain Certain long-term capital gains from the sale of a qualified Wisconsin investment may be excluded from income. A qualified Wisconsin investment means:

- The investment was in a business that was a qualified Wisconsin business for the year of the investment and at least two of the four subsequent years, and
- The investment was made after December 31, 2010, and held for at least five uninterrupted years.

A qualified Wisconsin business means a business that was certified by the Wisconsin Economic Development Corporation or, for 2014 and thereafter, was registered with the Department of Revenue. A list of qualified Wisconsin businesses is available on our website at https://www.revenue.wi.gov/Pages/Report/q.aspx#qual.

Caution The list of qualified businesses have provided information concerning property, payroll, and number of employees for purposes of registering as a qualified Wisconsin business. The information has not been reviewed for purposes of determining eligibility for the exclusion or deferral.

Deferral of gain from a previous sale If you filed Wisconsin Schedule CG, *Income Tax Deferral of Long-Term Capital Gain* for 2011 or after, you may have qualified to defer tax on long-term capital gain if such gain was invested in a qualified Wisconsin business.

The basis of the investment in the qualified Wisconsin business must be reduced by the amount of gain deferred. This deferred gain is subject to tax when the investment is sold, it cannot be excluded.

Investment in a single member LLC If you invested in a single member LLC on or after January 1, 2011, the long-term capital gain exclusion for investment in a qualified Wisconsin business may be allowed if all of the following are met:

- The LLC filed federal Form 8832 or 2553 electing to be taxed as a C corporation or S corporation on or before January 1, 2011, and the election was approved by the IRS.
- The federal election also applies for Wisconsin tax purposes.

Specific Instructions

Line 1 Enter the date the investment in the qualified Wisconsin business was sold.

Line 2 Enter the date the first investment was made when the business was a qualified Wisconsin business.

Note See example 1 on page 2 of the instructions under C Corporations. This example reflects shares purchased as early as 5-31-2009; however, 5-31-2011 is the first date an investment was made when the C corporation was a qualified Wisconsin business. For this example, 05-31-2011 should be entered on line 2 of Schedule QI.

Line 3 Only check one option for the entity structure of the qualified Wisconsin business.

Line 4 Enter the name and Federal Employer Identification Number (FEIN) of the qualified Wisconsin business.

Line 5 Enter the sales price of the investment sold in the qualified Wisconsin business as reported on the federal Form 8949.

Line 6 The Wisconsin basis in the investment sold may differ from the federal basis. There may be a basis difference because:

- You deferred long-term gain from the sale of an asset in 2011 or after and invested the deferred gain in a qualified Wisconsin business. This deferral of gain would have been reported on Schedule CG for the year of the deferral.
- You were a member of a partnership or a shareholder of a tax-option (S) corporation and your annual adjustment to the basis for Wisconsin tax purposes was more or less than the adjustment to the basis for federal tax purposes. This basis adjustment is determined annually. See the Schedule 3K-1 instructions (partners) or the Schedule 5K-1 instructions (shareholders).

Note If you are affected by either or both of the above (or any other reason for difference in basis), you must complete Part 1 of Wisconsin Schedule T, Transitional Adjustments, and line 6 or 15 of Wisconsin Schedule WD. Also enter the Wisconsin adjusted basis from Part 1 of Schedule T on line 6 of Schedule QI.

If the Wisconsin basis of your investment is the same as the federal basis, enter on line 6 of Schedule QI, the federal basis of this investment as reported on federal Form 8949 or line 1a or 8a of Schedule D if Form 8949 is not filed.

Line 7 The amount of deferred long-term gain is the amount reported on Schedule CG for the appropriate year.

Line 8 This is the basis used to determine gain allowed in computing the allocation for non-taxable qualified gain. The deferred long-term gain from line 7 must be included in this amount.

Line 9 This is the amount used to determine non-taxable qualified gain for investments in partnerships and tax-option (S) corporations. The deferred long-term gain cannot be used as a basis reduction when determining this amount. If line 9 is 0 (zero) or less, continue to line 10 only if the sale is from an investment in a C corporation.

Line 10 For C corporations, non-taxable qualified gain is directly related to the gain on shares sold of a qualified Wisconsin investment. See the examples in C Corporations below. For partnerships and tax-option (S) corporations an allocation must be computed using the gain calculated on line 9 to determine the non-taxable qualified gain. See the examples in Partnerships and Tax-Options (S) Corporations on page 5 of the instructions. **Note** If line 9 is 0 (zero) or less, there can still be a non-taxable qualified gain, but only from the sale of an investment in a C corporation.

Caution Information showing how you computed the allocation of the qualified gain must be filed with your return.

Note The gain entered on line 10 should be reported on line 15a of Schedule WD.

Sale of Investment in C Corporations

If the sale of an investment in a C corporation includes investments made when the corporation was not a qualified Wisconsin business, the investments must be separated to determine the taxable gain and non-taxable qualified gain. The non-taxable qualified gain is directly related to the gain on shares sold as a qualified Wisconsin investment.

Example 1

- C corporation XYZ was a qualified Wisconsin business for 2011, 2012, 2013, and 2014.
- 900 Shares in C corporation XYZ were sold on 8-30-2016 at $100 per share as follows:

(The chart below reflects federal basis and has not been adjusted for Wisconsin)

Date of Purchase	Shares Purchased	Shares Sold 08-30-2016	Selling Price $100/Sh.	Basis of Shares Sold	Gain
5-31-2009	200	200	$20,000	$40,000	($20,000)
5-31-2010	200	200	$20,000	$50,000	($30,000)
5-31-2011	**200**	**200**	**$20,000**	**$5,000**	**$15,000**
6-30-2011	**200**	**200**	**$20,000**	**$5,000**	**$15,000**
6-30-2012	100	100	$10,000	$5,000	$5,000
Total	900	900	$90,000	$105,000	($15,000)

- Only the shares purchased on 5-31-2011 and 6-30-2011 are considered a qualified Wisconsin investment.
  - Shares in XYZ purchased in 2009 and 2010 do not qualify because XYZ was not a qualified Wisconsin business at the time of the investment.
  - Shares purchased in 2012 do not qualify because the shares were not held for at least five years.
- In this example investments made in XYZ did not include a deferred long-term capital gain from an asset previously sold.
- The gain of $30,000 ($15,000 + $15,000) on the sale of the 400 shares from 2011 is qualified gain reported on line 10 of Schedule QI and must be reported on line 15a of Schedule WD. See example 2 on page 4 on how to report a sale of investment when there is a deferred long-term gain.
- The sale of the investment is entered on Schedule QI as follows:

Line 1 Date investment sold: 08 30 2016

Line 2 Purchase date of initial investment in the qualified Wisconsin business: 05 31 2011

Line 3 Type of investment: X Stock purchase ____ Partnership interest ____ LLC membership

Line 4 Entity Name: XYZ Inc.
FEIN: xx-xxxxxxx

Line 5 Sales price of investment as reported on federal Form 8949 90000

Line 6 Cost or other basis adjusted for Wisconsin 105000

Line 7 Deferred long-term gain included in the investment 0

Line 8 Add line 6 and line 7 105000

Line 9 Amount used to determine non-taxable qualified gain.
Subtract line 8 from line 5 . . . . - 15000

Non-Taxable Long-Term Gain

Line 10 Amount you computed to be non-taxable qualified gain.
(**Enter on line 15a of Schedule WD**) 30000

Taxable Long-Term Gain

Line 11 Add line 6 and line 10 135000

Line 12 Net taxable long-term gain or (loss). Subtract line 11 from 5 . . . . - 45000

Example 2 (Deferred Gain)

- C corporation XYZ was a qualified Wisconsin business for 2011, 2012, 2013, and 2014.
- The purchase of the 200 shares on 5-31-2011 included $5,000 of deferred long-term capital gain from an asset previously sold.
- 900 Shares in C corporation XYZ were sold on 8-30-2016 at $100 per share as follows:

(The chart below reflects federal basis and has not been adjusted for Wisconsin)

Date of Purchase	Shares Purchased	Shares Sold 08-30-2016	Selling Price $100/Sh.	Basis of Shares Sold	Gain
5-31-2009	200	200	$20,000	$40,000	($20,000)
5-31-2010	200	200	$20,000	$50,000	($30,000)
5-31-2011	**200**	**200**	**$20,000**	**$5,000**	**$15,000**
6-30-2011	**200**	**200**	**$20,000**	**$5,000**	**$15,000**
6-30-2012	100	100	$10,000	$5,000	$5,000
Total	900	900	$90,000	$105,000	($15,000)

- Only the shares purchased on 5-31-2011 and 6-30-2011 are considered a qualified Wisconsin investment.
  - Shares in XYZ purchased in 2009 and 2010 do not qualify because XYZ was not a qualified Wisconsin business at the time of the investment.
  - Shares purchased in 2012 are not a qualified Wisconsin investment because the shares were not held for at least five years.
- In this example the investment made on 5-31-2011 includes a $5,000 deferred long-term capital gain from an asset previously sold.
  - The deferred long-term gain of $5,000 must be reported on Schedule T and Schedule WD.
  - The basis on line 6 of Schedule QI must be adjusted to reflect the $5,000 of deferred long-term gain. This will result in a $100,000 basis ($105,000 - $5,000) on line 6 of Schedule QI.
- The gain of $30,000 ($15,000 + $15,000) on the sale of the 400 shares from 2011 is qualified gain reported on line 10 of Schedule QI and must be reported on line 15a of Schedule WD. The net taxable gain from the sale of the investment is $25,000.
- The sale of the investment is entered on Schedule QI as follows:

Line 1 Date investment sold: 08 30 2016

Line 2 Purchase date of initial investment in the qualified Wisconsin business: 05 31 2011

Line 3 Type of investment: X Stock purchase ____ Partnership interest ____ LLC membership

Line 4 Entity Name: XYZ Inc.
FEIN: xx-xxxxxxx

Line 5 Sales price of investment as reported on federal Form 8949 90000

Line 6 Cost or other basis adjusted for Wisconsin 100000

Line 7 Deferred long-term gain included in the investment 5000

Line 8 Add line 6 and line 7 105000

Line 9 Amount used to determine non-taxable qualified gain.
Subtract line 8 from line 5 . . . . - 15000

Non-taxable Long-Term Gain

Line 10 Amount you computed to be non-taxable qualified gain.
(**Enter on line 15a of Schedule WD**) 30000

Taxable Long-Term Gain

Line 11 Add line 6 and line 10 130000

Line 12 Net taxable long-term gain or (loss). Subtract line 11 from 5 . . . . - 40000

Sale of Investment in Partnerships and Tax-Option (S) Corporations

You must make a reasonable allocation of gain on the sale of the investment in a business that was not qualified for the entire investment period. The denominator should include the fair market value (FMV) of all the investments you made in the entity and the numerator should only include investments you made in the entity that are considered a qualified Wisconsin investment.

Example 1

- Partnership XYZ's Partners A and B each have a 50% interest.
- The partnership was a qualified Wisconsin business for 2011, 2012, 2013, and 2014.
- On 12-31-2016, Partner A liquidated its partnership interest in XYZ.

Investments Partner A made in XYZ and the gain from the sale of its partnership interest in XYZ are as follows:

(The chart below reflects federal basis and has not been adjusted for Wisconsin)

Date of Investment	FMV of the Investment	Sales Price 12-31-2016	Tax Basis of Investment	Gain on Sale of Investment
5-31-2009	$ 35,000			
5-31-2010	$ 20,000			
5-31-2011	**$ 30,000**			
12-31-2011	**$ 50,000**			
12-31-2012	$ 15,000			
12-31-2013	$ 10,000			
12-31-2014	$ 15,000			
12-31-2015	$ 10,000			
12-31-2016	$ 15,000			
Total	$200,000	$1,000,000	$100,000	$900,000

- Only the investments made on 5-31-2011 and 12-31-2011 are considered a qualified Wisconsin investment.
  - The business did not register with the Wisconsin Department of Revenue (DOR) to be a qualified Wisconsin business in 2015 and 2016; therefore, investments in XYZ made in 2009, 2010, 2015, and 2016 do not qualify.
  - The investments made in 2012, 2013, and 2014 are not qualified Wisconsin investments because the investments were not held at least five years.
- In this example, investments made by Partner A in XYZ do not include a deferred long-term capital gain from an asset previously sold.
- The allocation percentage for non-taxable qualified gain is computed as follows:

  $$\frac{\$\ 80{,}000}{\$200{,}000} = 40\%$$

  - $80,000 reflects the FMV of qualified Wisconsin investments made in XYZ ($30,000 + $50,000) by Partner A on 5-31-2011 and 12-31-2011.
  - $200,000 reflects the FMV of the total investments made in XYZ by Partner A.

- The non-taxable qualified gain is computed as follows:

  $900,000 x 40% = $360,000

  $900,000 is the gain on the sale of the investment. (**Note** If there were differences in Wisconsin tax basis besides deferred long-term gain, they must be reflected in the Wisconsin tax basis before computing the gain used in the non-taxable qualified gain allocation. See example 3 on page 7).

- $360,000 is non-taxable qualified gain reported on line 10 of Schedule QI and must be reported on line 15a of Schedule WD. See example 2 on page 6 for how to report a sale of investment when there is a deferred long-term gain.

- The sale of the investment is entered on Schedule QI as follows:

Line 1	Date investment sold: 12 31 2016	
Line 2	Purchase date of initial investment in the qualified Wisconsin business: 05 31 2011	
Line 3	Type of investment: ____ Stock purchase X Partnership interest ____ LLC membership	
Line 4	Entity Name: XYZ LLC FEIN: xx-xxxxxxx	
Line 5	Sales price of investment as reported on federal Form 8949	1000000
Line 6	Cost or other basis adjusted for Wisconsin as reported on Schedule T	100000
Line 7	Deferred long-term gain included in the investment	0
Line 8	Add line 6 and line 7	100000
Line 9	Amount used to determine non-taxable qualified gain. Subtract line 8 from line 5	900000
Non-taxable Long-Term Gain		
Line 10	Amount you computed to be non-taxable qualified gain. (**Enter on line 15a of Schedule WD**)	360000
Taxable Long-Term Gain		
Line 11	Add line 6 and line 10	460000
Line 12	Net taxable long-term gain or (loss). Subtract line 11 from 5	540000

Example 2 (Deferred Gain)

- Partnership XYZ's Partners A and B each have a 50% interest.
- The partnership was a qualified Wisconsin business for 2011, 2012, 2013, and 2014.
- The investment made in XYZ on 5-31-2011 included $20,000 of deferred long-term capital gain from an asset previously sold.
- On 12-31-2016, Partner A liquidated its partnership interest in XYZ.

  Investments Partner A made in XYZ and the gain from the sale of its partnership interest in XYZ are as follows:

  (The chart below reflects federal basis and has not been adjusted for Wisconsin)

Date of Investment	FMV of the Investment	Sales Price 12-31-2016	Tax Basis of Investment	Gain on Sale of Investment
5-31-2009	$ 35,000			
5-31-2010	$ 20,000			
5-31-2011	**$ 30,000**			
12-31-2011	**$ 50,000**			
12-31-2012	$ 15,000			
12-31-2013	$ 10,000			
12-31-2014	$ 15,000			
12-31-2015	$ 10,000			
12-31-2016	$ 15,000			
Total	$200,000	$1,000,000	$100,000	$900,000

- Only the investments made on 5-31-2011 and 12-31-2011 are considered a qualified Wisconsin investment.
  - The business did not register with the Wisconsin Department of Revenue (DOR) to be a qualified Wisconsin business in 2015 and 2016; therefore, investments in XYZ made in 2009, 2010, 2015, and 2016 do not qualify.
  - The investments made in 2012, 2013, and 2014 are not qualified Wisconsin investments because the investments were not held at least five years.
- In this example, the investment made on 5-31-2011 includes a $20,000 deferred long-term capital gain from an asset previously sold.
  - The deferred long-term gain of $20,000 must be reported on Schedule T and Schedule WD.
  - The basis on line 6 of Schedule QI must be adjusted to reflect the $20,000 of deferred long-term gain. This results in an $80,000 basis ($100,000 - $20,000) on line 6 of Schedule QI.

- The allocation percentage for non-taxable qualified gain is computed as follows:

  $\frac{\$\ 80,000}{\$200,000} = 40\%$

  – $80,000 reflects the FMV of qualified Wisconsin investments made in XYZ ($30,000 + $50,000) by Partner A on 5-31-2011 and 12-31-2011.

  – $200,000 reflects the FMV of the total investments made in XYZ by Partner A.

- The non-taxable qualified gain is computed as follows:

  $900,000 x 40% = $360,000

  – $900,000 is the gain on the sale of the investment without an adjustment to Wisconsin tax basis for deferred long-term gain (**Note** If there were differences in Wisconsin tax basis besides deferred long-term gain, they must be reflected in the Wisconsin tax basis before computing the gain used in the non-taxable qualified gain allocation. See example 3 below).

- $360,000 is the non-taxable qualified gain reported on line 10 of Schedule QI and must be reported on line 15a of Schedule WD. The net taxable gain from the sale of the investment is $560,000.

- The sale of the investment is entered on Schedule QI as follows:

Line 1 Date investment sold: 12 31 2016

Line 2 Purchase date of initial investment in the qualified Wisconsin business: 05 31 2011

Line 3 Type of investment: ____ Stock purchase X Partnership interest ____ LLC membership

Line 4 Entity Name: XYZ LLC

FEIN: xx-xxxxxxx

Line 5 Sales price of investment as reported on federal Form 8949 1000000

Line 6 Cost or other basis adjusted for Wisconsin as reported on Schedule T 80000

Line 7 Deferred long-term gain included in the investment 20000

Line 8 Add line 6 and line 7 100000

Line 9 Amount used to determine non-taxable qualified gain.
Subtract line 8 from line 5 900000

Non-taxable Long-Term Gain

Line 10 Amount you computed to be non-taxable qualified gain.
(**Enter on line 15a of Schedule WD**) 360000

Taxable Long-Term Gain

Line 11 Add line 6 and line 10 440000

Line 12 Net taxable long-term gain or (loss). Subtract line 11 from 5 560000

Example 3 (Deferred Gain and Other Basis Adjustment)

- Partnership XYZ's Partners A and B each have a 50% interest.
- The partnership was a qualified Wisconsin business for 2011, 2012, 2013, and 2014.
- The investment made in XYZ on 5-31-2011 included $20,000 of deferred long-term capital gain from an asset previously sold.
- The Wisconsin tax basis in the investment is $50,000 more than the federal basis due to depreciation differences.
- On 12-31-2016, Partner A liquidated its partnership interest in XYZ.

  Investments Partner A made in XYZ and the gain from the sale of its partnership interest in XYZ are as follows:

  (The chart below reflects federal basis and has not been adjusted for Wisconsin)

Date of Investment	FMV of the Investment	Sales Price 12-31-2016	Tax Basis of Investment	Gain on Sale of Investment
5-31-2009	$ 35,000			
5-31-2010	$ 20,000			
5-31-2011	**$ 30,000**			
12-31-2011	**$ 50,000**			
12-31-2012	$ 15,000			
12-31-2013	$ 10,000			
12-31-2014	$ 15,000			
12-31-2015	$ 10,000			
12-31-2016	$ 15,000			
Total	$200,000	$1,000,000	$100,000	$900,000

- Only the investments made on 5-31-2011 and 12-31-2011 are considered a qualified Wisconsin investment.
  - The business did not register with the Wisconsin Department of Revenue (DOR) to be a qualified Wisconsin business in 2015 and 2016; therefore, investments made in XYZ in 2009, 2010, 2015, and 2016 do not qualify.
  - The investments made in 2012, 2013, and 2014 are not qualified Wisconsin investments because the investments were not held at least five years.
- In this example, the Wisconsin tax basis must be increased by $50,000 due to depreciation differences, and decreased by $20,000 because the investment made on 5-31-2011 included a $20,000 deferred long-term capital gain from an asset previously sold.
  - The $50,000 increase in Wisconsin tax basis and the $20,000 decrease in Wisconsin tax basis must be reported on Schedule T and Schedule WD.
  - The basis on line 6 of Schedule QI must be adjusted to reflect the $50,000 increase in Wisconsin tax basis and the $20,000 decrease in Wisconsin tax basis. This results in a $130,000 basis ($100,000 + $50,000 - $20,000) on line 6 of Schedule QI.
- The allocation percentage for non-taxable qualified gain is computed as follows:

  $$\frac{\$\ 80{,}000}{\$200{,}000} = 40\%$$

  - $80,000 reflects the FMV of qualified Wisconsin investments made in XYZ ($30,000 + $50,000) by Partner A on 5-31-2011 and 12-31-2011.
  - $200,000 reflects the FMV of the total investments made in XYZ by Partner A.
- The non-taxable qualified gain is computed as follows:

  $850,000 x 40% = $340,000

  - $850,000 is the Wisconsin gain on the sale of the investment ($1,000,000 - $100,000 + $50,000).
  - The $50,000 adjustment to increase Wisconsin tax basis for depreciation differences is recognized when computing the gain used in the non-taxable qualified gain allocation.
  - The $20,000 adjustment to decrease Wisconsin tax basis for deferred long-term gain is <u>not</u> recognized when computing the gain used in the non-taxable qualified gain allocation.
- $340,000 is the non-taxable qualified gain reported on line 10 of Schedule QI and must be reported on line 15a of Schedule WD. The net taxable gain from the sale of the investment is $530,000.
- The sale of the investment is entered on Schedule QI as follows:

Line 1 Date investment sold: 12 31 2016

Line 2 Purchase date of initial investment in the qualified Wisconsin business: 05 31 2011

Line 3 Type of investment: ____ Stock purchase X Partnership interest ____ LLC membership

Line 4 Entity Name: XYZ LLC
FEIN: xx-xxxxxxx

Line 5	Sales price of investment as reported on federal Form 8949	1000000
Line 6	Cost or other basis adjusted for Wisconsin as reported on Schedule T	130000
Line 7	Deferred long-term gain included in the investment	20000
Line 8	Add line 6 and line 7	150000
Line 9	Amount used to determine non-taxable qualified gain. Subtract line 8 from line 5	850000
Non-taxable Long-Term Gain		
Line 10	Amount you computed to be non-taxable qualified gain. (**Enter on line 15a of Schedule WD**)	340000
Taxable Long-Term Gain		
Line 11	Add line 6 and line 10	470000
Line 12	Net taxable long-term gain or (loss). Subtract line 11 from 5	530000

Attachments

Include a complete copy of your federal income tax return with your Form 1 or 1NPR, a copy of Schedule QI, and an explanation of how you computed the qualified gain.

Additional Information

For more information, you may:

Email your questions to DORIncome@wisconsin.gov

Call (608) 266-2486

Write to: Wisconsin Department of Revenue
2135 Rimrock Road MS 5-77
PO Box 8949
Madison WI 53708-8949