

# Wisconsin Insurance Company Franchise Tax Return Form 4I and Instructions

## New for 2008:

### Related Entity Expenses

Taxpayers must make modifications to federal income for interest or rent expenses paid, accrued, or incurred to a related entity. See pages 3 and 13 for details of how this new law affects Form 4I filers.

### Schedule RT

Taxpayers must file Wisconsin Schedule RT if the total of certain related party expenses exceeds \$100,000. See page 3 for details.

### Schedule CR

If the insurer is claiming any business tax credits, it must file Schedule CR with its Wisconsin return. Schedule CR has replaced Schedules C1 and C2.

## Remember to file these with Form 4I:

- Any extension
- A copy of your federal return, including consolidating schedules
- A list of solely owned LLCs
- Any other required forms or schedules, such as Schedule RT or Schedule CR



*Do not staple attachments to your return. File electronically or use paper clips to submit these items.*

## Go Electronic!

Fast • Accurate • Secure

File Form 4I through the Federal/State E-Filing Program. With approved third party software, you can file Form 4I along with other Wisconsin and federal returns in a single filing. Or, you may use Federal/State E-Filing to file Form 4I separately. See *Filing Methods* on page 2 for details.

## Visit us online at

[www.revenue.wi.gov](http://www.revenue.wi.gov) to...

- Obtain tax forms and instructions.
- Get answers to frequently asked questions (FAQs).
- Find out which third-party software you can use to file Form 4I electronically.
- Register for electronic funds transfer.
- Check out the *Wisconsin Tax Bulletin* quarterly newsletter.
- Read Department of Revenue publications which explain specific topics in detail.
- Register to receive e-mail news about new laws and procedures.
- Determine which e-mail address or telephone number to use to contact the Department about a specific question.

## Don't forget about use tax!

The corporation may owe use tax if it purchased tangible personal property or certain services for storage, use, or consumption in Wisconsin without paying a state sales or use tax. See page 5 for details.

# Purpose of Form 4I

Insurance companies use Form 4I to report their income, gains, losses, deductions, and credits and to compute their franchise tax and recycling surcharge liability.

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## General Franchise or Income Tax Return Instructions

### Who Must File

**Insurers Required to File.** The following insurers are required to file Form 4I:

- Domestic insurance companies (those organized under Wisconsin law).
- Cooperative sickness care associations organized under sec. 185.981, Wis. Stats., service insurance corporations organized under ch. 613, Wis. Stats., and non-profit organizations that derive income from an HMO or LSHO (see details below).
- Insurers that derive income from lottery prizes if the winning tickets were originally bought in Wisconsin.

For taxable years beginning before January 1, 1996, certain HMOs and LSHOs that were not organized or oper-

ated for pecuniary profit were exempt from filing Wisconsin franchise or income tax returns under sec. 71.26(1)(a) or (c), 71.45(1), or 185.981(5), Wis. Stats. However, for taxable years beginning on or after January 1, 1996, the following tax-exempt entities are subject to Wisconsin franchise or income tax (and must file Form 4I) to the extent that they derive income from an HMO or LSHO in Wisconsin:

- Cooperative sickness care associations organized under sec. 185.981, Wis. Stats.
- Service insurance corporations organized under ch. 613, Wis. Stats.
- Religious, scientific, educational, benevolent, or other corporations or associations of individuals not organized or conducted for pecuniary profit.

“HMO” is defined in sec. 609.01(2), Wis. Stats., and means a health care plan offered by an organization established under ch. 185, 611, 613, or 614, Wis. Stats., or issued a certificate of authority under ch. 618, Wis. Stats., that makes available to its enrolled participants, in consideration for predetermined periodic fixed payments, comprehensive health care services performed by providers selected by the organization.

“LSHO” is defined in sec. 609.01(3), Wis. Stats., and means a health care plan offered by an organization established under ch. 185, 611, 613, or 614, Wis. Stats., or issued a certificate of authority under ch. 618, Wis. Stats., that makes available to its enrolled participants, in consideration for predetermined periodic fixed payments, a limited range of health care services performed by providers selected by the organization.

**Insurers Not Required to File.** The following insurers aren’t required to file unless they derive income from lottery prizes:

- Foreign insurers (those not organized under Wisconsin law).
- Domestic insurers engaged exclusively in life insurance business.
- Domestic insurers transacting mortgage guaranty insurance business as defined in Wisconsin Administrative Code section Insurance 6.75(2)(i).
- Town mutual insurers organized under or subject to ch. 612, Wis. Stats.
- Insurers exempt from federal income taxation under section 501(c)(15) of the Internal Revenue Code (IRC).

### When and Where to File

Generally, you must file Form 4I by the 15th day of the 3rd month following the close of your taxable year. Returns for short taxable years (periods of less than 12 months) are due on or before the federal due date. If becoming, or ceasing to be, a member of an affiliated group, the same federal filing requirements and due dates apply for Wisconsin. If a return is filed late, without an extension, you may be subject to penalties and interest.

**Extensions.** Any extension allowed by the Internal Revenue Service for filing the federal return automatically extends the Wisconsin due date to 30 days after the federal extended due date. You don’t need to submit either a copy of the federal extension or an application for a Wisconsin extension to the Department by the original due date of your return. However, you must attach a copy of the federal extension to the Wisconsin return that you file. Wisconsin law provides an automatic extension of 7 months or until the original due date of the corporation’s correspond-

ing federal return, whichever is later.

**Filing Methods.** File electronically through the Federal/State E-Filing Program. For a list of software vendors participating in the Federal/State E-Filing Program, visit the Department of Revenue’s web page at [www.revenue.wi.gov/eserv/corp/third.html](http://www.revenue.wi.gov/eserv/corp/third.html).

Paper filing is also permitted. If you choose to file your return on paper, follow these mailing instructions carefully:

- **Do not fasten, staple or bind the pages of your return.** Use paper clips instead.
- If you are submitting multiple returns, separate them with **colored separator sheets**.
- Use the mailing address shown on the form.

### Period Covered by Return

The return must cover the same period as the insurer’s federal income tax return. A 2008 Wisconsin return must be filed for calendar year 2008 or a fiscal year that begins in 2008. A fiscal year may end only on the last day of a month. The period covered by the return can’t exceed 12 months.

Any change in accounting period made for federal purposes must also be made for Wisconsin purposes. For the first taxable year for which the change applies, file with the Wisconsin return a copy of the Internal Revenue Service’s notice of approval of accounting period change if such approval is required or an explanation of the change if the IRS’s approval isn’t required.

### Accounting Methods and Elections

In computing unrelated business taxable income, the method of accounting must be the same method used in computing federal unrelated business taxable income. However, if the method used for federal purposes isn’t authorized under the Internal Revenue Code in effect for Wisconsin, use a method authorized under the Internal Revenue Code in effect for Wisconsin.

**Consolidated Filing Not Permitted.** Each corporation organized under Wisconsin law, licensed to do business in Wisconsin, or doing business in Wisconsin must file a separate Wisconsin franchise or income tax return and make its own estimated tax payments. Wisconsin law doesn’t permit corporations that are members of an affiliated group, as defined in IRC section 1504, to file consolidated returns.

**Change in Accounting Method.** A change in accounting method made for federal purposes must also be made for

Wisconsin purposes, unless the change isn't authorized under the Internal Revenue Code in effect for Wisconsin. Adjustments required federally as a result of a change made while the insurer is subject to Wisconsin taxation must also be made for Wisconsin purposes, except in the last year that an insurer is subject to taxation by Wisconsin it must take into account all remaining adjustments required.

For the first taxable year for which the change applies, file with the Wisconsin return either a copy of the application for change in accounting method filed with the Internal Revenue Service and copy of the IRS's consent, if applicable, or an explanation of the change if the IRS's approval isn't required.

**Elections.** As explained above, an insurer can't make different elections for federal and Wisconsin purposes with respect to accounting periods and accounting methods, unless the federal method isn't permitted under the Internal Revenue Code in effect for Wisconsin.

In situations where an insurer has an option under the Internal Revenue Code and the IRS doesn't consider that option to be a method of accounting, a different election may be made for Wisconsin than that made for federal purposes. If federal law specifies the manner or time period in which an election must be made, those requirements also apply for Wisconsin purposes. If different elections are made, adjustments are required on the Wisconsin return to account for any differences. Insurers report these differences on Schedules V and W.

### Payment of Estimated Tax

If the total of your franchise tax and recycling surcharge due is \$500 or more, you generally must make quarterly estimated tax payments using Wisconsin Form 4-ES or by electronic funds transfer. You may download vouchers from the Department's web site at [www.revenue.wi.gov](http://www.revenue.wi.gov). Failure to make required estimated tax payments may result in an interest charge.

**CAUTION:** An extension for filing the return doesn't extend the time to pay the franchise or income tax. Interest will be charged on the tax and surcharge not paid by the original due date. You can avoid interest charges during the extension period by paying the tax and surcharge due by the original due date. Submit your payment with Wisconsin Form 4-ES, *Corporation Estimated Tax Voucher*.

**Quick Refund.** An insurer that overpaid its estimated tax may apply for a refund *before* filing its tax return if its overpayment is (1) at least 10% of the expected Wisconsin tax liability and (2) at least \$500. To apply, file Wisconsin Form 4466W, *Corporation Application for Quick Refund*

*of Overpayment of Estimated Tax*, after the end of the taxable year and before the insurer files its tax return. **Do not** file Form 4466W at the same time as your tax return.

An insurer that has a tax due when filing its tax return as a result of receiving a "quick refund" will be charged interest on the amount of unpaid tax.

### Disclosure of Related Entity Expenses and Reportable Transactions

An insurer may be required to separately disclose certain expenses paid, accrued, or incurred to a related entity. An insurer or its material advisor may also be required to separately disclose reportable transactions.

**CAUTION:** Wisconsin law provides that certain related entity expenses shall not be allowed as deductions if they are not timely disclosed as required by the Department of Revenue. Also, penalties may apply for failure to disclose reportable transactions to the Department.

**Disclosure of Related Entity Expenses.** If the insurer paid, accrued, or incurred more than \$100,000 of expenses to a related person or entity, the insurer must generally file Schedule RT, *Wisconsin Related Entity Expenses Disclosure Statement*, with its franchise or income tax return. **Note:** Schedule RT will not be accepted on an amended return after the extended due date of the return. The Schedule RT instructions provide a detailed explanation of the filing requirements.

**Corporation's Disclosure of Reportable Transactions.** If the insurer was required to file federal Form 8886, *Reportable Transaction Disclosure Statement*, with the Internal Revenue Service (IRS) and that form was required to be filed with the IRS after October 27, 2007, you must file a copy of Form 8886 with the Department of Revenue within 60 days of the date you are required to file it for federal income tax purposes. Send a paper copy of Form 8886, separate from your Form 4I, to the following address: Wisconsin Department of Revenue, Tax Shelters Program, P.O. Box 8958, Madison, WI 53708-8958.

See the instructions to federal Form 8886 to determine if you are required to file the form for federal purposes.

**Material Advisor's Disclosure of Reportable Transactions.** A "material advisor" means any person who provides any material aid, assistance, or advice with respect to organizing, managing, promoting, selling, implementing, insuring, or carrying out any reportable transaction (as defined in the U.S. Treasury Regulations) and who, directly or indirectly, derives gross income from providing such aid, assistance, or advice in an amount that exceeds the threshold amount.

For a material advisor providing advice to an entity and not an individual, the “threshold amount” is any of the following:

- \$25,000 if the reportable transaction is a listed transaction (as defined in the U.S. Treasury Regulations).
- \$250,000 if the reportable transaction is not a listed transaction.

For a material advisor providing advice to an individual, the “threshold amount” is any of the following:

- \$10,000 if the reportable transaction is a listed transaction (as defined in the U.S. Treasury Regulations).
- \$50,000 if the reportable transaction is not a listed transaction.

A material advisor that is required to disclose a reportable transaction to the IRS after October 27, 2007, must file a copy of the disclosure with the Department of Revenue within 60 days of the date it is required for federal income tax purposes, if the reportable transaction affects the taxpayer’s Wisconsin income or franchise tax liability. For federal purposes, the form required for this disclosure is Form 8918.

If you are required to file Form 8918 for federal income tax purposes and the reportable transaction to which the form relates affects the taxpayer’s Wisconsin income or franchise tax liability, send a paper copy, separate from the Wisconsin return, to the following address: Wisconsin Department of Revenue, Tax Shelters Program, P.O. Box 8958, Madison, WI 53708-8958.

### **Internal Revenue Service Adjustments, Amended Returns, and Claims for Refund**

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

Send a copy of the final federal audit reports and any associated amended Wisconsin returns to the Wisconsin Department of Revenue, P.O. Box 8908, Madison, WI 53708-8908. If submitting a federal audit report without an amended return, mail it to the Audit Bureau, Wisconsin Department of Revenue, Mail Stop 5-144, P.O. Box 8906, Madison, WI 53708-8906. Don’t attach these items to the tax return for the current year.

**Amended Returns.** After you have filed a complete, original tax return, you may file an amended return to correct a

tax return as you originally filed it or as it was later adjusted by an amended return, a claim for refund, or an office or field audit.

If you file an amended federal return and the changes affect the Wisconsin net tax payable, the amount of a Wisconsin credit, a Wisconsin net business loss carryforward, or a Wisconsin capital loss carryforward, you must file an amended Wisconsin return with the Department of Revenue within 90 days after filing the amended federal return.

To file an amended Wisconsin return, put a check mark on the line next to item E on the front of the return, complete the return, and include an explanation of any changes made. Show computations in detail, including any applicable supplemental forms or schedules. Also show how you figured your refund or additional amount owed.

Where applicable, the line-by-line instructions in this booklet provide specific instructions for how to compute the amounts on an amended return.

Send amended returns to the Wisconsin Department of Revenue, P.O. Box 8908, Madison, WI 53708-8908. Don’t attach amended returns to other tax returns that you are filing.

**Claims for Refund.** A claim for refund must be filed within 4 years of the unextended due date of the return. However, a claim for refund to recover all or part of any tax or credit paid as a result of an office or field audit must be filed within 4 years after such an assessment. That assessment must have been paid and must not have been protested by filing a petition for redetermination. See section Tax 2.12, Wisconsin Administrative Code, for more information.

### **Final Return**

If the corporation liquidated during the taxable year, check the “Final return” line in item D on the front of the return. Enter the date of liquidation as the taxable year ending date at the top of the return. Submit a copy of your plan of liquidation along with a copy of federal Form 966 (even if not required for federal purposes) with your Wisconsin return.

Generally, the final return is due on or before the federal due date. In most cases, this is the 15th day of the 3rd month after the date the corporation dissolved. The tax is payable by the 15th day of the 3rd month after the date of dissolution, regardless of the due date of the final return.

### **Information Returns**

**Transfers of Capital Stock.** If one or more individual

shareholders of the corporation who are Wisconsin residents transfer the corporation's capital stock during the calendar year, the corporation must file Wisconsin Form 8, *Transfers of Capital Stock*, for that calendar year. For more information, see the Form 8 instructions.

**Miscellaneous Income.** If the corporation paid \$600 or more in rents, royalties, or certain nonwage compensation to one or more individuals, the corporation must file an information return to report those payments. You may use Wisconsin Form 9b, *Miscellaneous Income*, or you may use federal Form 1099 instead of Form 9b. For more information, see the Form 9b instructions.

### Wisconsin Use Tax

Corporations that purchase taxable tangible personal property or taxable services for storage, use, or consumption in Wisconsin without payment of a sales or use tax may owe Wisconsin state, county, or stadium use tax and be required to file a Wisconsin sales and use tax return.

For more information or forms, visit the Department's web site at [www.revenue.wi.gov/html/sales.html](http://www.revenue.wi.gov/html/sales.html), send an e-mail to [sales10@revenue.wi.gov](mailto:sales10@revenue.wi.gov), fax your question to (608) 267-1030, call (608) 266-2776, or write to the Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8949, Madison, WI 53708-8949.

### Penalties for Not Filing or Filing Incorrect Returns

If you don't file a Form 4I that you are required to file, or if you file an incorrect Form 4I due to negligence or fraud, interest and penalties may be assessed against you. The

interest rate on delinquent taxes is 18% per year. Civil penalties may be as much as 100% of the amount of tax not reported on the return. Criminal penalties for filing a false return include a fine of up to \$10,000 and imprisonment. Further, if you fail to disclose reportable transactions, you may be subject to the penalties described in sec. 71.81, Wis. Stats., including a \$30,000 penalty for failure to disclose a listed transaction.

### Obtaining Forms and Assistance

If you need forms or publications, you may:

- Download them from the Department's Internet web site at [www.revenue.wi.gov](http://www.revenue.wi.gov).
- Request them online at [www.revenue.wi.gov](http://www.revenue.wi.gov).
- Call (608) 266-1961.
- Write to the Forms Request Office, Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8949, Madison, WI 53708-8949.
- Call or visit any Department of Revenue office.

If you need help in preparing Form 4I, you may:

- E-mail your question to [corp@revenue.wi.gov](mailto:corp@revenue.wi.gov).
- Send a FAX to (608) 267-0834.
- Call (608) 266-2772 [TTY (608) 267-1049].
- Write to the Audit Bureau, Wisconsin Department of Revenue, Mail Stop 5-144, P.O. Box 8906, Madison, WI 53708-8906.
- Call or visit any Department of Revenue office.

## Conformity With Internal Revenue Code and Exceptions

The Wisconsin income and franchise tax law is based on the federal Internal Revenue Code (IRC). The IRC generally applies for Wisconsin purposes at the same time as for federal purposes. However, significant exceptions apply. These exceptions are discussed below.

**Note:** The exceptions listed below are those in effect as of the publication date of these instructions. It is possible that subsequent changes in Wisconsin law may eliminate some of these exceptions applicable to the corporation's 2008 return.

### Amendments to Internal Revenue Code After December 19, 2006

Wisconsin has not adopted any amendments to the Internal Revenue Code enacted after December 31, 2006 nor any amendments to the IRC enacted by the final Act to amend the IRC in the year 2006 (P.L. 109-432, Tax Relief and Health Care Act). Thus, **Wisconsin has not adopted any amendments to the IRC enacted after December 19, 2006.**

### Depreciation and Section 179 Expensing

If the corporation has depreciation deductions or section 179 expense deductions, it is very likely that the amount of

deduction will be different for Wisconsin purposes than for federal purposes.

**Depreciation or Amortization Provisions Enacted After December 31, 2000.** For Wisconsin purposes, depreciation or amortization is determined under the provisions of the Internal Revenue Code in effect on December 31, 2000. For example, the following provisions do not apply for Wisconsin purposes because they were enacted after December 31, 2000:

- 30% bonus depreciation (sec. 101 of P.L. 107-147, sec. 201 of P.L. 108-27, sec. 403(a) of P.L. 108-311)
- 50% bonus depreciation (sec. 201 of P.L. 108-27)
- Accelerated depreciation for Indian reservation property (sec. 316 of P.L. 108-311)
- Modification of application of income forecast method of depreciation (sec. 242 of P.L. 108-357)
- Special expensing provisions for film and television productions (sec. 244 of P.L. 108-357)
- Special rules on depreciation for aircraft (sec. 336 of P.L. 108-357)
- Expansion of limitation on depreciation of certain passenger automobiles (sec. 910 of P.L. 108-357)
- Treatment of electric transmission property as 15-year property (sec. 1308 of P.L. 109-58)
- Expansion of amortization for certain atmospheric pollution control facilities (sec. 1309 of P.L. 109-58)
- Special expensing provisions for equipment used in refining liquid fuels (sec. 1323 of P.L. 109-58)
- Natural gas distribution lines treated as 15-year property (sec. 1325 of P.L. 109-58)
- Natural gas gathering lines treated as 7-year property (sec. 1326 of P.L. 109-58)
- Special rules for amortization of geological and geophysical expenditures (sec. 1329 of P.L. 109-58, sec. 503 of P.L. 109-222)
- Election to amortize musical works and copyrights over a 5-year period (sec. 207 of P.L. 109-222)

**Section 179 Expense Limitations.** For Wisconsin purposes, the allowable amount of section 179 expense depends on whether the property is used in farming by a person actively engaged in farming. In either case, different maximum amounts and phaseout thresholds apply for Wisconsin purposes than for federal purposes. Additionally, off-the-shelf computer software is not considered qualifying property for Wisconsin purposes, although it is qualifying property for federal purposes.

In general, the maximum section 179 expense and phase-

out threshold amounts for taxable years beginning in 2008 are as follows:

<b>Section 179 Property in General</b>		
	<b>Wisconsin Law</b>	<b>Federal Law</b>
Maximum Section 179 Expense	\$25,000	\$250,000
Phaseout Threshold (Amt. of qualifying property)	\$200,000	\$800,000

For property used in farming by a person actively engaged in farming, the maximum section 179 expense and phaseout threshold amounts for taxable years beginning in 2008 are as follows:

<b>Section 179 Property Used in Farming by a Person Actively Engaged in Farming</b>		
	<b>Wisconsin Law</b>	<b>Federal Law</b>
Maximum Section 179 Expense	\$115,000	\$250,000
Phaseout Threshold (Amt. of qualifying property)	\$460,000	\$800,000

For purposes of Wisconsin section 179 expense, “farming” has the meaning given in section 464(e)(1) of the IRC and “actively engaged in farming” has the meaning given in 7 CFR 1400.201.

#### **Other Exceptions to Internal Revenue Code**

The following federal provisions in effect as of December 19, 2006 are specifically excluded for Wisconsin franchise and income tax purposes:

**Small Business Stock.** For federal purposes, an exclusion is allowed for 50% of the gain from the sale or exchange of qualified small business stock issued after August 10, 1993 and held for more than 5 years (sec. 13113 of P.L. 103-66). For Wisconsin purposes, this section does not apply.

**Installment Method for Accrual Basis Taxpayers.** For federal purposes, accrual basis taxpayers may report income from an installment sale under the installment method (P.L. 106-573). For Wisconsin purposes, accrual basis taxpayers cannot use the installment method. Gain from the sale of property must be recognized in the year of the sale. This does not apply to dispositions of property used or produced in farming or for certain dispositions of timeshares or residential lots.

**Health Savings Accounts.** For federal purposes, certain individuals may establish health savings accounts. A deduction is allowed for contributions to the account. Amounts contributed by an employer to an employee’s account are excluded from the employee’s gross income. (P.L. 108-173, P.L. 109-432). For Wisconsin purposes, the health savings accounts provisions do not apply.

**Other Provisions Not Adopted for Wisconsin Purposes.**

- Exclusion for extraterritorial income (sec. 1, 3, 4, and 5 of P.L. 106-519), repeal of such exclusion (sec. 101 of P.L. 108-357), and binding-contract relief provisions (sec. 513 of P.L. 109-222) (Note: Foreign sales corporation (FSC) treatment is repealed for Wisconsin purposes for taxable years beginning on or after January 1, 2005.)
- Special expensing provisions for environmental remediation costs and extension of the termination date (sec. 162 of P.L. 106-554, enacted December 21, 2000; sec. 308 of P.L. 108-311)
- Election to defer gain on disposition of transmission property to implement Federal Regulatory Commission or state electric restructuring (sec. 909 of P.L. 108-357, sec 1305 of P.L. 109-58)
- Enhanced deduction for corporate donations of computer technology and extension of the termination date (sec. 165 of P.L. 106-554, sec. 306 of P.L. 108-311)
- Tax benefits for Gulf Opportunity (GO) Zones (sec. 101 of P.L. 109-135)
- Exceptions to imputed interest rules for loans to continuing care facilities (sec. 209 of P.L. 109-222)
- Special temporary dividends received deduction for re-investing foreign earnings in the U.S. (sec. 422 of P.L. 108-357)
- Reform of tax treatment of certain leasing arrangements (sec. 847 of P.L. 108-357)
- Special rules for nuclear decommissioning costs (sec.

1310 of P.L. 109-58)

- Pass-through of deduction for costs incurred by small refiner cooperatives to comply with EPA sulfur regulations (sec. 1324 of P.L. 109-58)
- Expansion of research credit (sec. 1351 of P.L. 109-58)
- Special tax treatment of state ownership of railroad real estate investment trust (sec. 11146 of P.L. 109-59)
- All provisions of P.L.109-432, Tax Relief and Health Care Act of 2006, enacted December 20, 2006, in addition to **any other amendments to the IRC enacted after December 19, 2006.**

**Items Specific to Insurance Companies**

IRC section 847, relating to an additional deduction for insurers required to discount unpaid losses, doesn't apply for Wisconsin purposes.

However, if the corporation is a small company as defined in IRC section 831(b)(2), you may elect to be taxed on taxable investment income as provided in IRC section 831(b), rather than on net income.

**Accounting for Differences**

Adjustments may be necessary to account for differences between federal and Wisconsin taxable income because of the items described above. Insurers report these adjustments on Schedules 1 and 2 of Form 4I and on Schedules V and W.

## Line-by-Line Instructions for Form 4I

You must complete pages 1, 2, and 3 of Form 4I. Do not enter "See attached" instead of completing the entry spaces. If more space is needed, use separate sheets using the same size and format as the printed forms.

Round cents to the nearest whole dollar by eliminating amounts less than 50 cents and increasing amounts from 50 cents through 99 cents to the next higher dollar.

**Caution:** Federal line numbers referred to on Form 4I and in these instructions may change.

**Items A Through I**

Before completing items A through I, fill in the insurer's 2008 taxable year at the top of the form and the corpora-

tion's name and address. If the corporation dissolved, enter the date of dissolution as the ending date of the 2008 taxable year.

■ **Item A. Federal Employer Identification Number** – Enter the insurer's federal employer identification number (EIN). If you haven't yet applied for a federal EIN, you may do so by filing federal Form SS-4 with the Internal Revenue Service, calling the IRS's toll-free number at (800) 829-4933, or applying online at [www.irs.gov](http://www.irs.gov).

■ **Item B. Business Activity (NAICS) Code** – Enter the corporation's principal business activity code, based on the North American Industry Classification System (NAICS), from your federal return. If your federal return is a consolidated return, go to [www.census.gov/epcd/www/naics.html](http://www.census.gov/epcd/www/naics.html) to find the NAICS code for your principal business activ-



ity.

■ **Item C. State and Year of Incorporation** – Enter the 2-letter postal abbreviation for the state (or name of the foreign country) under whose laws the corporation was formed and the year of incorporation.

■ **Item D. First Return, Final Return, Short Period – Change in Accounting Period, and Short Period – Stock Purchase or Sale** – Check the line for “First return” if this is the first year that you are filing a Wisconsin return because the corporation wasn’t in existence or didn’t do business in Wisconsin in prior years. Check the line for “Final return” if the corporation ceased to exist or withdrew from Wisconsin during the year. Check the applicable line if a short period return is being filed due to a change in the corporation’s accounting period or a stock purchase or sale.

■ **Item E. Amended Return** – Check here if this is an amended return. Circle the number in front of the lines that you are changing and provide a detailed explanation of the changes made, including any supporting form or schedule.

■ **Item F. Extended Due Date** – Check here if the insurer has an extension of time to file its Wisconsin return, and enter the extended due date.

■ **Item G. No Business Transacted in Wisconsin** – If the corporation was incorporated under Wisconsin law or licensed to do business in Wisconsin but had no property or activity in Wisconsin for the taxable year, check here and provide a complete copy of the corporation’s federal return and annual statement.

■ **Item H. Federal Consolidated Return** – If the corporation participated in filing a federal consolidated return, check here and enter the parent corporation’s federal employer identification number (EIN).

■ **Item I. Schedule RT Required** – Check here if the corporation is filing Schedule RT, *Wisconsin Related Entity Expenses Disclosure Statement*, with its return. Schedule RT is generally required if the corporation pays, accrues, or incurs more than \$100,000 of expenses to a related person or entity in the taxable year. See the Schedule RT instructions for details of the requirement to file Schedule RT.

#### Lines 1 Through 4: Federal Taxable Income, Additions, and Subtractions

■ **Line 1. Federal Taxable Income** – Enter the amount of federal taxable income from the corporation’s federal return. If your Wisconsin taxable income differs from your federal taxable income, account for those differences on line 2 (additions to federal income) and line 4 (subtractions

from federal income).

■ **Line 2. Additions to Federal Income** – Complete Schedule 1 on page 3 and enter the total. Specific instructions for Schedule 1 follow:

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■ **Line 1. Loss Carryforward** – Enter any loss carryforward, including any capital loss carryforward previously deducted for Wisconsin, that is being deducted in the calculation of federal taxable income.

■ **Line 2. Dividend Income** – Enter dividend income received during the taxable year to the extent the dividends were deducted in computing federal taxable income.

■ **Line 3. Additions from Schedule V** – Enter the total additions to federal income from Schedule V. Line-by-line instructions to Schedules V and W are included at the end of this booklet.

■ **Line 4. Deduction for Discounting Unpaid Losses** – Enter any IRC section 847 deduction that was claimed in computing federal taxable income.

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■ **Line 4. Subtractions from Federal Income** – Complete Schedule 2 on page 3 and enter the total. Specific instructions for Schedule 2 follow:

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■ **Line 1. Subtractions from Schedule W** – Enter the total subtractions from federal income from Schedule W. Line-by-line instructions to Schedules V and W are included at the end of this booklet.

■ **Line 2. – Income from Lottery Prizes** – Enter the amount of income that is realized from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in **Wisconsin**. This income is brought back into Wisconsin income later (line 15).

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#### Lines 5 Through 9

■ **Line 5. Net Income From All Operations** – If you are engaged in the sale of life insurance and other insurance, check the designated space and fill in lines 6 through 9. If you are not engaged in the sale of life insurance, enter the amount from line 5 on line 9.

■ **Line 6. Net Gain From Operations, Other Than Life Insurance** – Include income from the following sources:

- Net income, after dividends to policyholders and before

federal and foreign income taxes, from property and casualty insurance.

- Net gain from operations, after dividends to policyholders and before federal income taxes, from accident and health insurance.
- Net realized capital gains or losses on investments from accident and health insurance operations. Apportion net realized capital gains or losses among life insurance lines and accident and health insurance lines in the same manner as net investment income is required to be apportioned by the Commissioner of Insurance.

■ **Line 7. Total Net Gain From Operations** – Include income from the sources included in line 6 above, plus the following sources:

- Net gain from operations, after dividends to policyholders and before federal income taxes, from life insurance.
- Net realized capital gains or losses on investments from life insurance operations.

**Note for Lines 6 and 7:** See the Annual Statement adopted by the National Association of Insurance Commissioners for the year 2008, as filed with the Commissioner of Insurance of the State of Wisconsin, which shows the amounts for net income after dividends to policyholders, net realized capital gains, etc. For life and accident and health insurance companies, refer to the Summary of Operations, Analysis of Operations by Lines of Business. Net realized capital gains or losses are allocated after the Interest Maintenance Reserve (IMR) adjustment and before capital gains tax.

■ **Line 8. Percentage** – In determining the income or loss from nonlife lines of insurance, the percentage will be one of the following:

- Zero, if the numerator (line 6) is negative and adjusted federal taxable income (line 5) is positive.
- Zero, if the numerator (line 6) is positive and adjusted federal taxable income (line 5) is negative.
- Zero, if the numerator (line 6) is zero.
- Greater than zero but not more than one, if the numerator (line 6) is positive, the denominator (line 7) is positive, and adjusted federal taxable income (line 5) is positive.
- Greater than zero but not more than one, if the numerator (line 6) is negative, the denominator (line 7) is negative, and adjusted federal taxable income (line 5) is negative.
- One, if the numerator (line 6) is positive, the denominator (line 7) is zero or negative, and adjusted federal taxable income (line 5) is positive.

- One, if the numerator (line 6) is negative, the denominator (line 7) is zero or positive, and adjusted federal taxable income (line 5) is negative.

■ **Line 9. Total Income Other Than Life Insurance Income** – If you collected premiums written on property and risks, other than life insurance, in and outside Wisconsin, complete lines 10 and 11. Otherwise, enter the amount from line 9 on line 11.

#### Line 10: Apportionment

Complete Schedule 3 on page 3 and enter the percentage from Schedule 3, line 4. Specific instructions for Schedule 3 follow:

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■ **Line 1. Direct Premiums** – In column a, enter the direct premiums written on all property and risks other than life insurance, where the subject of insurance was resident, located, or to be performed in Wisconsin. In column b, enter the total direct premiums on all property and risks other than life insurance, wherever located during the taxable year.

■ **Line 2 Assumed Premiums** – In column a, enter the assumed premiums from domestic insurance companies written for reinsurance on property and risks other than life insurance, where the subject of insurance was resident, located, or to be performed in Wisconsin. In column b, enter the assumed premiums from domestic insurance companies written for reinsurance on property and risks other than life insurance, wherever located during the taxable year.

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#### Lines 11 and 12

■ **Line 11. Wisconsin Net Income Before Net Business Loss Offset** – Multiply line 9 by the percentage on line 10. **Note:** In the taxable year that a loss is sustained, the dividends received deduction and capital loss carryover are not allowed.

■ **Line 12. Wisconsin Net Business Loss Carryforward** – Enter any Wisconsin net business loss sustained in any of the taxable years 1993 through 2007 to the extent not offset by other items of Wisconsin income in the loss year or by Wisconsin net business income of any year between the loss year and the current taxable year.

The Wisconsin net business loss is computed under sec. 71.45(4), Wis. Stats., which provides that the net business loss is the Wisconsin net loss sustained in a preceding tax-

able year, except that the loss may not include deductible dividends or capital loss carryovers. Include with the return a schedule similar to Form 4BL showing the computation of the net business loss carryforward.

If line 11 is zero or a loss, don't fill in line 12. If the net business loss carryforward exceeds the income reported on line 11, don't enter more than the amount on line 11.

**Lines 14 Through 31**

■ **Line 14. Gross Tax** – Enter the lesser of (a) 7.9% of the Wisconsin net income reported on line 13 or (b) 2% of gross Wisconsin premiums.

The franchise tax measured by net income attributable to all lines of insurance in Wisconsin may not exceed 2% of the gross Wisconsin premiums as defined in sec. 76.62, Wis. Stats. This is the amount of gross premiums, other than life insurance premiums, received for direct insurance less return premiums and cancellations and returns from savings and gains on all insurance other than reinsurance by the insurer during the preceding year in Wisconsin.

If paying the 2% maximum tax, check the designated space and include a schedule detailing the computation of Wisconsin gross nonlife premiums, including references to the applicable schedules, columns, and lines of your annual statement.

■ **Line 15. Tax on Income From Wisconsin Lottery Prizes** – Income derived from the purchase, sale, or redemption of lottery prizes, if the winning tickets were originally bought in Wisconsin, is taxed at 7.9%. This income is the amount you entered on Schedule 2, line 2. Also enter this amount on line 15.

■ **Line 17. Nonrefundable Credits** – Enter any nonrefundable credits the corporation is claiming from Schedule CR, line 33. However, you may not offset these credits against the recycling surcharge. If you are claiming more than one credit, you must claim the credits in a specific order. To receive any credits, the taxpayer must submit the appropriate credit computation schedules. See the Schedule CR instructions for details.

To determine if the corporation qualifies for any credits, see Publication 123, *Business Tax Credits for 2008*, which is available on the Department of Revenue's web site at [www.revenue.wi.gov/html/taxpubs.html#business](http://www.revenue.wi.gov/html/taxpubs.html#business).

■ **Line 19. Recycling Surcharge** – Enter the greater of \$25 or 3% of the total gross tax on line 16, but not more than \$9,800. However, if the corporation has no business activities in Wisconsin or has less than \$4 million of gross receipts from all activities, enter zero on line 19.

“Gross receipts from all activities” means gross receipts, gross sales, gross premiums earned, gross dividends, gross interest income, gross rents, gross royalties, the gross sales price from the disposition of capital assets and business assets, gross receipts passed through from other entities, and all other receipts that are included in gross income for Wisconsin franchise tax purposes

■ **Line 20. Endangered Resources Donation** – Your donation supports the preservation and management of more than 200 endangered and threatened Wisconsin plants and animals. It also helps protect Wisconsin's finest remaining examples of prairies, forests, and wetlands.

Support endangered resources in Wisconsin. Fill in line 20 with the amount you wish to donate. Your gift will either reduce your refund or be added to tax due. You can also send a check directly to the Endangered Resources Fund, Department of Natural Resources, P.O. Box 7921, Madison WI 53707-7921.

■ **Line 21. Veterans Trust Fund Donation** – You may designate an amount as a veterans trust fund donation. Your donation will be used by the Wisconsin Department of Veterans Affairs for the benefit of veterans or their dependents. Fill in line 21 with the amount you wish to donate. Your donation will either reduce your refund or be added to tax due.

■ **Line 23. Estimated Tax Payments** – Enter estimated tax payments made or overpayments applied from prior years' returns. Subtract any “quick refund” applied for on Form 4466W. You cannot claim estimated tax payments made by a related corporation. If this is an amended return, use the worksheet below to determine the amount to enter on line 23.

**Line 23 for Amended Returns**

Estimated tax payments made for 2008.....	\$ _____
<i>Plus:</i>	
Tax carried forward from 2007.....	\$ _____
Additional tax paid on previous returns filed for 2008.....	\$ _____
Additional tax assessed by the Department for 2008 (whether or not paid).....	\$ _____
Subtotal.....	\$ _____
<i>Minus:</i>	
Tax refunded on 2008 Form 4466W.....	\$ _____
Tax refunded to you on previous returns filed for 2008.....	\$ _____
Overpayment from your previously filed 2008 return claimed on your 2009 return, if you already filed your 2009 return.....	\$ _____
Tax previously paid to enter on line 23.....	\$ _____

■ **Line 24. Wisconsin Tax Withheld** – Enter the amount

of Wisconsin tax withheld from lottery prizes. Also enter the corporation's share of Wisconsin tax withheld from pass-through entities as reported on Wisconsin Schedules 3K-1 or 2K-1, as applicable. Include a copy of the Schedule 3K-1 or 2K-1 with the tax return that you file. If this is an amended return, enter the withholding reported on your original return, unless the amount you originally reported was incorrect.

■ **Line 25. Refundable Credits** – Enter any refundable credits the corporation is claiming from Schedule CR, line 37. To determine if the corporation qualifies for any credits, see Publication 123, *Business Tax Credits for 2008* (available at [www.revenue.wi.gov/html/taxpubs.html#business](http://www.revenue.wi.gov/html/taxpubs.html#business)). To claim a credit, complete the appropriate credit schedule as instructed by Publication 123, enter the credit amount on the appropriate line of Schedule CR, and submit the credit schedule and Schedule CR with your return.

■ **Line 27. Interest, Penalty, and Late Fee Due** – Enter any interest, penalty, and late fee due from Form 4U, line 17 or 26. Check the space after the arrow if you figured underpayment interest using the annualized income installment method on Form 4U, page 2.

If you are filing an amended return and you were previously assessed interest for underpayment of estimated taxes, complete an amended Form 4U, Part I, based on the total of the amounts shown on lines 18 and 19. Enter the difference between the underpayment interest from the amended Form 4U, line 17, and the amount you previously paid on line 27. Show an overpayment as a negative number. File Form 4U with your amended return. Otherwise, leave line 27 blank. The Department will compute interest on the amount of refund approved or tax owed.

■ **Line 28. Tax Due** – If the total of lines 22 and 27 is larger than line 26, enter the amount owed. Pay by electronic funds transfer or mail your check with a 2008 Form 4-ES, *Corporation Estimated Tax Voucher*, to the address shown on the voucher. Otherwise, paper clip your check to the front of Form 4I.

■ **Line 29. Overpayment** – If line 26 is larger than the total of lines 22 and 27, enter the overpayment.

**NOTE:** If you must recapture development zones investment credit because the property is disposed of or ceases to be qualified property before the end of the recapture period, add the amount from Schedule DC, line 34, to the tax due on line 28 or reduce the overpayment on line 29.

■ **Line 30. 2009 Estimated Tax** – Enter the amount of any overpayment from line 29 that is to be credited to the corporation's 2009 estimated tax. The balance of any overpayment will be refunded.

If this is an amended return and you have already filed your 2009 return, enter on line 30 the overpayment that you claimed as a credit on your 2009 return from your previously filed original or amended 2008 return. Otherwise, you may allocate the overpayment from line 29 between line 30 and line 31 as you choose.

### Lines 32 Through 34b

■ **Line 32. Gross Receipts** – Enter total company gross receipts, gross sales, gross premiums earned, gross dividends, gross interest income, gross rents, gross royalties, the gross sales price from the disposition of capital assets and business assets, gross receipts passed through from other entities, and all other receipts that are included in gross income, other than life insurance income, before apportionment for Wisconsin franchise tax purposes.

■ **Line 33. Total From Schedule RT** – If the corporation reports more than \$100,000 of expenses on its return which are amounts paid, accrued, or incurred to a related person or entity, the corporation must generally file Schedule RT, *Related Entity Expenses Disclosure Statement* with its return. On line 33, enter the total amount of expenses disclosed on Schedule RT. See the Schedule RT instructions for details of the Schedule RT filing requirements.

■ **Lines 34a and 34b. Wisconsin and Total Company Payroll** – Enter the total amount of the company's payroll located in Wisconsin (line 34a) and the company's total amount of payroll everywhere (line 34b). Include only amounts attributable to employees of the corporation. In the computation of payroll located in Wisconsin, include individuals that satisfy one or more of the following:

- The individual's service is performed entirely in Wisconsin.
- The individual's service is performed in and outside Wisconsin, but the service performed outside Wisconsin is incidental to the individual's service in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and the base of operations of the individual is in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and, if there is no base of operations, the place from which the individual's service is directed or controlled is in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and neither the base of operations of the individual nor the place from which the service is directed or controlled is in any state in which some part of the service is performed, but the individual's residence is in Wisconsin.

## Additional Information, Signatures, and Supplemental Schedules

■ **Additional Information Required** – Answer the questions given in items 1 through 8.

■ **Signatures** – An officer of the corporation must sign the form on page 2. If the return is prepared by someone other than an employee of the corporation, the individual who prepared the return must sign the return, by hand, in the space provided for the preparer’s signature and furnish the preparing firm’s federal employer identification number. A self-employed individual must enter “SSN” or “PTIN” and the social security number or preparer tax identification number in the space for the preparer’s federal employer identification number.

■ **Supplemental Schedules** – File the following items as supplemental schedules to your Form 4I:

- Your federal return with all supporting schedules. If the federal return is a consolidated return, you must include a breakdown by individual company or a copy of the unconsolidated federal return together with supporting schedules.
- Supporting schedules for Form 4I.
- Supplemental statements, including a statement detailing any differences between federal and Wisconsin depreciation.
- A list of your solely owned LLCs.
- Any extension of time to file your return.

If you are filing Form 4I on paper, **do not staple, fasten or bind these supplemental schedules to your return. Use paper clips instead.**

## Instructions for Schedules V and W

### Instructions for Schedule V (Additions)

■ **Line 1. Interest Income** – Enter interest income received on state and municipal obligations and any other interest income that is exempt from federal income tax and isn't included in federal taxable income.

Corporations subject to the Wisconsin income tax rather than the franchise tax shouldn't enter interest income on line 1 that is exempt from income tax under both Wisconsin and federal law. This includes interest income on the following types of obligations:

- Public housing authority or community development authority bonds issued by municipalities located in Wisconsin
- Wisconsin Housing Finance Authority bonds
- Wisconsin municipal redevelopment authority bonds
- Wisconsin higher education bonds
- Wisconsin Housing and Economic Development Authority bonds issued on or after December 11, 2003, to fund multifamily affordable housing or elderly housing projects
- Wisconsin Housing and Economic Development Authority bonds issued before January 29, 1987, except business development revenue bonds, economic development revenue bonds, and CHAP housing revenue bonds
- Public housing agency bonds issued before January 29, 1987, by agencies located outside Wisconsin where the interest therefrom qualifies for exemption from federal taxation for a reason other than or in addition to section 103 of the IRC
- Local exposition district bonds
- Wisconsin professional baseball park district bonds
- Bonds issued by the Government of Puerto Rico, Guam, the Virgin Islands or, for bonds issued after October 16, 2004, the Government of American Samoa
- Local cultural arts district bonds
- Wisconsin professional football stadium bonds
- Wisconsin Aerospace Authority bonds

■ **Line 2. 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.

■ **Lines 3 and 4. Related Entity Interest and Rental Expenses** – For taxable years beginning on or after January 1, 2008, a corporation must make an addition modification to “add back” interest and rental expenses paid, accrued, or incurred to a related entity. These expenses must generally also be disclosed on Schedule RT. See the Schedule RT instructions for further details of the expenses required to be disclosed on Schedule RT and added back to income on Schedule V.

After the corporation makes this addition modification, the corporation uses Part II of Schedule RT to determine if it is eligible for a deduction for any of the amount added back. The corporation then makes a subtraction modification on Schedule W of the amount for which it is eligible for a deduction.

If the corporation is a partner, member, or beneficiary of a pass-through entity, also include the amount of modification included on lines 21a and 21b of Schedule 3K-1 and on lines 14a and 14b of Schedule 2K-1, if applicable.

■ **Line 5. Expenses Related to Nontaxable Income** – Enter expenses deducted in computing federal taxable income that are directly or indirectly related to nontaxable income. Refer to the specific instructions for Schedule W, line 8, for an explanation of “nontaxable income.” Examples of expenses related to nontaxable income include taxes, interest, and administrative fees related to the production of such income.

Also include on this line losses deducted in computing federal taxable income from the disposal of assets the gains from which would be nontaxable income if the assets were disposed of at a gain.

■ **Line 6. Percentage Depletion** – Enter percentage depletion deducted in computing federal taxable income. **Note:** Cost depletion is deductible for Wisconsin and should be entered on Schedule W, line 10, if not deducted on the federal return.

■ **Line 7. Section 179 Expense** – Enter the amount by which the federal section 179 expense deduction exceeds the Wisconsin deduction.

■ **Line 8. Depreciation/Amortization** – 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.

**CAUTION:** For assets first placed in service in taxable years beginning on or after January 1, 2001, you must compute depreciation or amortization under the Internal Revenue Code as amended to December 31, 2000.

An asset must continue to be depreciated or amortized under the method allowable for Wisconsin purposes for the year in which it was placed in service. Thus, the differences in Wisconsin and federal depreciation and amortization that existed before January 1, 1987 continue to exist. These differences are described in items a. through i. below.

- a. IRC section 168(f)(8), relating to a special rule for leases (safe harbor), didn't apply for Wisconsin purposes. See *Wisconsin Tax Bulletin* 84 (October 1993, page 22) for further details about Wisconsin's treatment of safe harbor leases.
- b. Telegraph, pipeline, gas, electric, steam, and telephone companies (defined under secs. 76.02(4), Wis. Stats. (1983-84), 76.02(5b), 76.28(1)(e)1., 3., and 4., and 76.38(1)(c), Wis. Stats. (1985-86), except for specialized common carriers) had to compute depreciation under the Internal Revenue Code in effect on December 31, 1980, for assets acquired during the period beginning with the 1981 taxable year and ending on December 31, 1986. **Note:** The *Beatrice Cheese, Inc.* decision described in item e below doesn't apply to these companies.
- c. Waste treatment and pollution abatement plants and equipment could be deducted or amortized pursuant to sec. 71.04(2b) or (2g), Wis. Stats. (1985-86).
- d. Alternative energy systems could be deducted or amortized pursuant to sec. 71.04(16), Wis. Stats. (1985-86).
- e. The federal accelerated cost recovery system (ACRS) wasn't allowable for Wisconsin purposes for property located outside Wisconsin and first placed in service from January 1, 1983, through December 31, 1986. Instead, depreciation was to be computed under a method permitted by the Internal Revenue Code as of December 31, 1980, or, in the alternative, the Internal Revenue Code applicable to the calendar year 1972.

However, the Wisconsin Tax Appeals Commission declared this provision unconstitutional in *Beatrice Cheese, Inc. vs. Wisconsin Department of Revenue* (February 24, 1993). Therefore, corporations have the option of either claiming the same depreciation deduction as for federal purposes, or continuing their present method of depreciation. For more information, see the tax release in *Wisconsin Tax Bulletin* 84 (October 1993,

page 18).

- f. A corporation electing to claim an investment tax credit for federal income tax purposes could either claim the credit and reduce the depreciable basis of the property by one-half of the credit, or claim a reduced investment credit and not reduce the depreciable basis of the property. These corporations weren't required to reduce the depreciable basis of the investment credit property for Wisconsin purposes.
  - g. Intangible drilling costs incurred after the 1980 taxable year are deductible for federal purposes under IRC section 263(c). Before the 1987 taxable year, the amount of depletion, depreciation, or write-off allowable for Wisconsin purposes was limited to that allowable under the Internal Revenue Code in effect on December 31, 1980, or, in the alternative, the Internal Revenue Code applicable to the calendar year 1972.
  - h. For the following property acquired in the 1986 taxable year, but before January 1, 1987, depreciation must be computed under the December 31, 1980, Internal Revenue Code: (1) residential real property, and (2) property used in farming, as defined in IRC section 464(e)(1), if the corporation's Wisconsin gross farm receipts or sales exceeded \$155,000 for the 1986 taxable year.
  - i. For Wisconsin purposes, before the 1987 taxable year, corporations (except regulated investment companies and real estate investment trusts) couldn't claim section 179 expense. Instead, depreciation was allowable on the cost basis of the property, without reduction for the amount the corporation may have elected to expense under section 179 for federal purposes.
- **Line 9. Basis Differences for Assets Disposed** – 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 either on this line or Schedule W, line 12. Provide a schedule showing the computation details.

For example, a corporation 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
Net Difference			\$10,000

The amount to enter on Schedule V, line 9, is \$10,000. If the Wisconsin bases of the assets had exceeded the federal bases, an entry would be made on Schedule W, line 12, instead.

■ **Line 10. Addition for Credits Computed** – Enter the total amount of the credits you computed on your 2008 return from the list provided. These credits are required to be included in the corporation’s income in the year computed.

■ **Line 11. Other Additions** – Enter any other additions to federal income. These could include:

- Federal capital loss carryovers (if previously deducted for Wisconsin).
- Adjustments required as a result of changes made to the Internal Revenue Code which don’t apply for Wisconsin.
- Adjustments required as a result of making different elections for Wisconsin and federal purposes.
- Separately stated items of income and adjustments for differences between the federal and Wisconsin treatment of any items of an S corporation that opts out of Wisconsin tax-option status.

#### Instructions for Schedule W (Subtractions)

■ **Line 1. Dividends Received Deduction (Schedule Y)** – Enter, from Schedule Y, line 4, dividends received which are included in the amount on Form 4I, line 3, and qualify for deduction for Wisconsin purposes. A dividend is deductible for Wisconsin purposes if it meets the following requirements:

- It is paid on common stock, and
- The corporation receiving the dividend owned at least 70% of the total combined voting stock of the payer corporation for the entire taxable year.

“Dividends received” means gross dividends minus any taxes paid to a foreign nation on those dividends and claimed as a deduction for Wisconsin purposes.

**Instructions for Schedule Y:** On line 1, list the names of the payers, the date or dates the stock was acquired, the percentage of the voting stock owned, and the dividends received which meet the above requirements and have been included on Form 4I, line 1, or on Schedule V. On line 3, enter taxes paid to a foreign nation on dividends listed on line 1, which were claimed as a deduction in computing federal taxable income or are being included on Schedule W, line 9.

Dividends received from certain subsidiary corporations may be nontaxable. See the instructions for Schedule W, line 8. Don’t include such dividends on Schedule Y.

■ **Lines 2 and 3. Related Entity Interest and Rental Expenses** – For taxable years beginning on or after January 1, 2008, a corporation must make an addition modification to “add back” interest and rental expenses paid, accrued, or

incurred to a related entity. The “addback” is reported on Schedule V, lines 3 and 4. After the corporation makes this addition modification, the corporation completes Part II of Schedule RT to determine if it is eligible for a deduction for any of the amount added back. The corporation then makes a subtraction modification on Schedule W, lines 2 and 3, for the amount for which it is eligible for a deduction. See the Schedule RT instructions for details of the conditions necessary to claim the subtraction modification.

If the corporation is a partner, member, or beneficiary of a pass-through entity, also include the amount of modification included on lines 21c and 21d of Schedule 3K-1 and on lines 14c and 14d of Schedule 2K-1, if applicable.

■ **Lines 4 and 5. Income from Related Entity Interest and Rental Expenses** – If the corporation has interest or rental income from a related entity which paid, accrued, or incurred the interest or rental expenses to the corporation, and that related entity could not deduct those expenses because the conditions set forth in Schedule RT, Part II, were not met, the corporation may subtract the corresponding interest or rental income from its taxable income.

In order to claim this subtraction, the corporation must obtain Schedule RT-1 from the related entity and submit Schedule RT-1 with its return. See the Schedule RT-1 instructions for further details.

■ **Line 6. Subpart F Income** – Enter income from controlled foreign corporations under Subpart F of the Internal Revenue Code as reported on Form 1120, Schedule C, line 14.

■ **Line 7. Foreign Dividend Gross-Up** – Enter foreign dividend gross-up reported on Form 1120, Schedule C, line 15.

■ **Line 8. Nontaxable Income** – Enter nontaxable income included in computing federal taxable 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.

**Note:** Such 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.

For corporations subject to the Wisconsin income tax rather than the franchise tax, nontaxable income includes interest on United States government obligations. **Note:** Expenses related to nontaxable income aren't deductible and must be added to federal taxable income on Schedule V, line 5.

■ **Line 9. Foreign Taxes** – Enter foreign taxes paid or accrued during the year that aren't deducted in computing federal taxable income and aren't included on Schedule W, line 7.

■ **Line 10. Cost Depletion** – Enter cost depletion that wasn't deducted in computing federal taxable income. **Note:** Percentage depletion isn't deductible for Wisconsin and must be added to federal taxable income on Schedule V, line 6.

■ **Line 11. Depreciation/Amortization** – Enter the amount by which the Wisconsin deduction for depreciation or amortization exceeds the federal deduction for depreciation or amortization. Refer to the instructions for Schedule V, line 8, for a detailed discussion of depreciation and amortization. Provide a schedule showing the computation details.

■ **Line 12. Basis Differences** – Enter the amount by which the Wisconsin basis of assets disposed of exceeds the fed-

eral basis. See the instructions for Schedule V, line 9, for an example. Provide a schedule showing the computation details.

■ **Line 13. Federal Work Opportunity Credit Wages** – Enter wages not deductible in computing federal income as a result of being used in computing the federal work opportunity tax credit.

■ **Line 14. Federal Research Credit Expenses** – Enter research expenses not deductible in computing federal income as a result of being used in computing the federal credit for increasing research activities.

■ **Line 15. Other Subtractions** – Enter any other subtractions from federal income. These could include:

- Adjustments required as a result of changes made to the Internal Revenue Code which don't apply for Wisconsin.
- Adjustments required as a result of making different elections for Wisconsin and federal purposes.
- Development zones investment credit recaptured because the property is disposed of or ceases to be qualified property before the end of the recapture period.
- Separately stated items of expense and adjustments for differences between the federal and Wisconsin treatment of any items of an S corporation that opts out of Wisconsin tax-option status.