Instructions for 2011 Schedule 4I: Wisconsin Adjustments for Insurance Companies

Purpose of Schedule 4I

When a corporation computes its Wisconsin franchise or income tax liability, certain aspects of its tax computation are different if the corporation is an insurance company. Subchapter VII of chapter 71 of the Wisconsin Statutes provides for these differences.

Whether or not a corporation is an insurance company, it uses Form 4 to compute its Wisconsin franchise or income tax liability. The purpose of Schedule 4I is to account for adjustments an insurance company must make so the amounts on Form 4 reflect the corporation's status as an insurance company.

Line-by-Line Instructions

These instructions are presented in the order the lines appear on Schedule 4I:

Part I: Additions Specific to Insurance Companies

This is where you compute Wisconsin addition modifications that are unique to insurance companies so you can include them on Schedule V, *Wisconsin Additions to Federal Income*.

■ **Line 1. Loss Carryforward –** Enter the insurance company's loss carryforward, including any capital loss carryforward previously deducted for Wisconsin, that was deducted in computing the federal taxable income you reported on Form 4, line 1.

■ **Line 2. Dividend Income –** Enter the insurance company's dividend income received during the taxable year to the extent the dividends were deducted from, or not included in, the federal taxable income you reported on Form 4, line 1.

■ **Line 3. Deduction for Discounting Unpaid Losses –** Enter any deduction under section 847 of the Internal Revenue Code that was claimed in computing the federal taxable income you reported for the insurance company on Form 4, line 1.

■ **Line 4. Total** – If this is a combined return, include the amount from line 4 in the amount on line 11 of the combined group's Schedule V.

Part II: Nontaxable Income from Life Insurance Operations

This is where you compute the nontaxable income from life insurance operations. This amount is carried forward to Schedule W, *Wisconsin Subtractions from Federal Income.*

■ **Line 5. Federal Taxable Income –** If this isn't a combined return, enter the amount from Form 4, line 1. If this is a combined return, enter the amount included in Form 4, line 1 that is attributable to the insurance company.

However, if this is a combined return and the insurance company has a net capital gain reportable on Form 4N, *Wisconsin Nonapportionable and Separately Apportionable Income,* add that net capital gain to the amount from Form 4, line 1 and enter the total on line 5 of Schedule 4I.

■ **Line 6. Total Addition Modifications –** Enter the company's total Wisconsin addition modifications. If this isn't a combined return, this is the amount from Schedule V, line 13. If this is a combined return, enter the portion of the amount on Schedule V, line 13 that is attributable to the insurance company.

■ **Line 8. Subtraction Modifications –** If this isn't a combined return, add the amounts on Schedule W, lines 1 through 13 plus line 15 and enter the total. If this is a combined return, add the portion of the amounts on Schedule W, lines 1 through 13 plus line 15 that is attributable to the insurance company and enter the total.

NOTE: To complete lines 10a and 10b, refer to the Annual Statement adopted by the National Association of Insurance Commissioners for the year 2011, as filed with the Commissioner of Insurance of the State of Wisconsin. For life and accident and health insurance companies, refer to the Summary of Operations, Analysis of Operations by Lines of Business.

■ **Line 10a. 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.

NOTE: 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. Net realized capital gains or losses are allocated after the Interest Maintenance Reserve (IMR) adjustment and before capital gains tax.

■ **Line 10b. Total Net Gain from Operations –** Include income from the sources included in line 10a 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.

■ **Line 11. 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 10a) is negative and adjusted federal taxable income (line 9) is positive.
- Zero, if the numerator (line 10a) is positive and adjusted federal taxable income (line 9) is negative.
- Zero, if the numerator (line 10a) is zero.
- Greater than zero but not more than one, if the numerator (line 10a) is positive, the denominator (line 10b) is positive, and adjusted federal taxable income (line 9) is positive.
- Greater than zero but not more than one, if the numerator (line 10a) is negative, the denominator (line 10b) is negative, and adjusted federal taxable income (line 9) is negative.
- One, if the numerator (line 10a) is positive, the denominator (line 10b) is zero or negative, and adjusted federal taxable income (line 9) is positive.
- One, if the numerator (line 10a) is negative, the denominator (line 10b) is zero or positive, and adjusted federal taxable income (line 9) is negative.

Part III: Net Business Loss Adjustment

If the insurance company has a net business loss, this is where you adjust that loss as required under sec. 71.45(4), Wis. Stats., so it doesn't include the dividends received deduction.

■ **Lines 14 through 18. Net Income or Loss –** Complete lines 14 through 17 of Part III to compute the net business loss for the taxable year before applying the adjustment. If line 18 is a positive amount, you do not have to complete Part III.

■ **Line 19. Dividends Received Deduction –** If this isn't a combined return, enter the company's total dividends received deduction from line 4 of the insurance company's Schedule Y, *Wisconsin Subtraction Modification for Dividends*. Enter this amount as a negative number.

If this is a combined return, you will need to analyze the combined group's dividend income that was reported on Schedule Y. The amount you enter on line 19 is the amount of the combined group's dividend income reported on Schedule Y which meets all three of the following:

1. Qualifies for the dividends received deduction under sec. 71.26(3)(j), Wis. Stats.,
2. Would not otherwise qualify to be eliminated from the combined group's combined unitary income under sec. 71.255(4)(f), Wis. Stats., and
3. Is otherwise includable in combined unitary income rather than reportable as a separate entity item on Form 4N.

Reduce these dividends by any foreign taxes paid on them, as you reported on line 3 of Schedule Y. Note that it doesn't matter which company in the group received the dividend income. You will determine this company's share of the dividends when you complete lines 20 and 21.

Following is additional information about criteria 2. and 3. presented in the list above:

Dividend Elimination Under Sec. 71.255(4)(f), Wis. Stats. Section Tax 2.61(9)(g), Wisconsin Administrative Code, provides that dividends that qualify to be eliminated from the group's combined unitary income under sec. 71.255(4)(f), Wis. Stats., are not required to be added back to the corporation's net business loss, even if they otherwise qualify for the dividends received deduction under sec. 71.26(3)(j), Wis. Stats. See the Schedule Y instructions for how to determine if a dividend qualifies to be eliminated from combined unitary income under sec. 71.255(4)(f), Wis. Stats.

Dividend Income from Separate Entity Items. If a dividend is not otherwise includable in combined unitary income, for example, if it is excluded from combined unitary income under the water's edge rules, do not include it in the computation of line 19 of Schedule 4I. You will account for it on line 22 instead.

■ **Line 20. Apportionment Percentage –** If this isn't a combined return, enter the company's apportionment percentage from line 8 of Form 4. If this is a combined return, enter the company's Wisconsin percentage of combined unitary income from Part II, column c of Form 4A.

> **CAUTION:** Do not enter the entire combined group's Wisconsin apportionment percentage on line 20. Enter only the insurance company's Wisconsin percentage of combined unitary income.

■ **Line 22. Dividends Received Deduction from Separate Entity Items –** Complete this line if any of the insurance company's dividend income met the first two criteria in the list presented in the instructions for line 19, but was not otherwise includable in combined unitary income. From this dividend income, subtract any foreign taxes on those dividends claimed as a deduction elsewhere on your return, and multiply the resulting amount by the apportionment percentage from Part II of Form 4N. Enter the total on line 22 as a negative number.

■ **Line 24. Net Business Loss Adjustment –** If this is a combined return, enter this amount on line O of the insurance company's Form 4M.

Part IV: Tax Adjustment

Since the tax liability of an insurance company is generally the lesser of 7.9% of its net income or 2% of its gross premiums, this is where you compute an adjustment to the insurance company's tax liability in cases where the 2% of gross premiums computation applies.

■ **Line 25. Wisconsin Net Income –** For insurance companies that are combined group members, Wisconsin net income is computed from the amounts on the member's Form 4M, as follows:

	Share of combined unitary income (= line L1 + L2)
+	Income from separate entity items (line M)
-	Net capital loss adjustment (line N)
-	Net business loss carryforward (line P)
	Wisconsin net income

(The line references L1, L2, M, N, and P refer to lines of Form 4M.)

■ **Line 27a. Gross 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. On line 27a, enter 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.

Attach a schedule detailing the computation of Wisconsin gross nonlife premiums, including references to the applicable schedules, columns, and lines of your annual statement.

■ **Line 30. Tax Adjustment –** If this is a combined return, the amount on Form 4, line 20 should equal the sum of the amounts on Schedule 4I, line 30 for each applicable insurance company in the combined group.

Additional Information and Assistance

Web Resources. The Department of Revenue has a web page dedicated to combined reporting issues, including:

- Frequently asked questions
- Training materials
- Links to Administrative Code sections that relate to combined reporting
- Articles on combined reporting

Access the combined reporting web page at: http://www.revenue.wi.gov/combrept/index.html

For questions that do not relate to combined reporting, the web page also has a library of frequently asked questions on general business tax topics, available at: http://www.revenue.wi.gov/faqs/index.html

Contact Information. If you cannot find the answer to your question in the resources available on the Department of Revenue's web page, contact the Department using any of the following methods:

- E-mail your question to corp@revenue.wi.gov
- Call (608) 266-2772
  (Telephone help is also available using TTY equipment. Call the Wisconsin Telecommunications Relay System at 711 or, if no answer, (800) 947-3529. These numbers are to be used only when calling with TTY equipment.)
- Send a fax to (608) 267-0834
- Write to the Audit Bureau, Wisconsin Department of Revenue, Mail Stop 5-144, PO Box 8906, Madison, WI 53708-8906