2017 Schedule OS Instructions

General Instructions

Purpose of Schedule OS

Schedule OS is used by individuals, estates, and trusts to compute the credit for net income tax paid to another state.

For additional information on this credit, get Publication 125, *Credit for Tax Paid to Another State*, from any department office or our website at revenue.wi.gov.

Who Is Eligible For the Credit

You may be eligible for the credit for net income tax paid to another state if:

- You were a Wisconsin resident for all or part of 2017, and
- You paid 2017 income tax to Wisconsin and to another state or the District of Columbia on the same income. "State" does not include the Commonwealth of Puerto Rico or the several territories organized by Congress.

You may **not** claim credit for any tax paid to a local unit of government (such as a city, county, or school district) or for any tax that is not an income tax (such as a severance tax, personal property tax, real estate tax, or sales and use tax).

New

Limitations The following limitations apply for 2017 and thereafter:

- The credit cannot be more than the amount of net tax paid to Wisconsin on income that is taxable to both Wisconsin and the other state. This limitation does not apply to income that is taxable to both Wisconsin and to Minnesota, Iowa, Illinois, or Michigan.
- You may not claim a credit for the manufacturing and agriculture credit based on eligible qualified production activities income used to compute the credit for net income tax paid to another state.

Military Spouses If you are a spouse of a servicemember and you were in another state solely to be with the servicemember serving in that state under military orders, you may not claim a credit for tax paid on wages earned in that state. Federal law prohibits states from taxing wages earned by a nonresident spouse of a servicemember. If tax was withheld from your wages, you must file a return with that state to obtain a refund.

Wisconsin residents working in Illinois, Indiana, Kentucky, or Michigan If you had 2017 state income tax withheld for Illinois, Indiana, Kentucky, or Michigan from income earned as an employee you received from working in one of those states, do **not** use Schedule OS. You can get a refund of the tax withheld for the period you were a Wisconsin resident by filing that other state's income tax return with that state. Income earned as an employee includes wages, salaries, tips, commissions, bonuses, etc. For more information, get Wisconsin Publication 121, *Reciprocity,* from any department office or on our website at revenue.wi.gov.

If you paid 2017 net income tax to one of those states on income other than from wages, salaries, tips, commissions, bonuses, etc. (such as from a business, unemployment compensation, rental property, or from the sale of real property), you may be eligible for the credit based on that income. Complete Schedule OS.

Part-year residents To be eligible, you must have been a Wisconsin resident when you received the income that was taxed by both states.

Nonresidents You generally must be a full-year or part-year Wisconsin resident to claim the credit. There is a limited circumstance in which a nonresident may claim the credit. If you are a shareholder of a tax-option (S) corporation, member of a limited liability company treated as a partnership (LLC), or partner of a partnership that files its return on a fiscal-year basis, you may claim a credit for tax paid by such entity for a period during which you were a Wisconsin resident.

Credit computed by a tax-option (S) corporation, limited liability company treated as a partnership (LLC), or partnership You may claim the credit based on your share of income taxes paid to another state by a tax-option (S) corporation, LLC, or partnership if the income from the entity is included in Wisconsin income.

If the tax-option (S) corporation, LLC, or partnership filed a composite income tax return with another state and paid tax on your behalf to that state, complete lines 1-35 and 37-42. Use a separate column for each state to which tax was paid. Do not complete line 36 to report the tax paid to the other state on your behalf. You may have to contact the entity to determine the state to which the tax was paid, your distributive share of the entity's income on which tax was paid on your behalf, and the type of income on which the tax was paid (e.g., ordinary income from trade or business activities, long-term capital gain, interest income, etc.). You will need this information when completing Schedule OS.

If the tax-option (S) corporation, LLC, or partnership filed its own income tax return with another state and paid tax on its income to that state, complete lines 25 and 36-42. Use a separate column for each state to which tax was paid. Do not complete lines 1-24 and 26-35 to report the tax paid by the entity on its income. You may have to contact the entity to determine the state to which the tax was paid, your pro rata share of the amount of income taxable to the other state, and the type of income on which the tax was paid (for example, ordinary income from trade or business activities, long-term capital gain, interest, etc.). You will need this information when completing lines 25 and 36.

If You Paid Tax To More Than Four Other States

If you paid 2017 net state income tax on the same income to Wisconsin and to more than four other states:

1. Complete additional Schedules OS, as needed, through line 38,
2. Add the amounts from line 38 from any additional Schedules OS, and
3. Fill in the total on line 39 of your first Schedule OS.

Line Instructions

First complete your income tax return for the other state. The credit is computed using amounts from that other state's return.

Note: Be sure to enter the postal abbreviation for the state at the top of each column.

Lines 1 – 23 Complete a separate column for each state to which tax was paid for 2017. Fill in the amount of each income and adjustment item that was taxed by the other state. These amounts are generally shown on a nonresident or part-year resident return or a schedule showing the other state source income attached to the other state return.

These line descriptions correspond to lines used for reporting income and adjustments for federal tax purposes. Do **not** fill in your federal income on these lines, even in those cases where the other state computes tax based on federal income and then prorates the tax based on the amount of that state source income to federal income. Fill in only the other state source income and adjustments.

Note: All items of income or adjustment shown on the other state's return must be listed on lines 1 – 23. If there is not a specific line on Schedule OS, include any income item on line 12 and any adjustment item on line 22.

If a tax-option (S) corporation, LLC, or partnership filed a composite income tax return with another state and paid tax to that state on your behalf, fill in the income on which tax was paid by the entity. For example, if the entity paid tax on your behalf on $10,000 of business income and $5,000 of long-term capital gain, fill in $10,000 on line 4 and $5,000 on line 5.

Line 24 For each state, fill in the total income taxed by that state. This will generally be the amount on line 13 less the amount on line 23.

Line 25 Fill in the 2-letter postal abbreviation for the state to which tax was paid. Failure to fill in the postal abbreviation may result in the credit being denied or a delay in the processing of your return.

Line 26 Fill in the amount of income taxable by both Wisconsin and the other state on line 26.

Note: If you claimed the manufacturing and agriculture credit, do not include in the income taxable to both Wisconsin and the other state the amount of qualified production activities income used to compute the credit.

CAUTION Wisconsin taxes only 70% of the net gain on the sale of assets held more than one year (40% for net gain on the sale of farm assets). Most states tax 100% of such gain. When the credit is claimed for tax paid to another state for gain on the sale of property that was held more than one year, the amount of income taxable by Wisconsin is generally less than the amount taxed by the other state.

Example 1: You filed an Illinois income tax return and reported a $10,000 gain on the sale of property held more than one year. For Wisconsin tax purposes, you claim the 30% capital gain exclusion. The amount of income taxable by both Wisconsin and the other state is $7,000 ($10,000 less the $3,000 capital gain exclusion).

Example 2: You filed a California income tax return and reported a $20,000 gain on the sale of property held more than one year. For Wisconsin tax purposes, a portion of the gain was offset by a $4,000 capital loss. You claim the 30% capital gain exclusion on the remaining $16,000. The amount of income taxable by both Wisconsin and the other state is $15,200 ($4,000 which is included in Wisconsin income but offset by the capital loss plus $11,200 which is taxable after the capital gain exclusion is applied). **Note:** In this example, if you had more than one long-term capital gain, a portion of the loss would be allocated to each gain. See Wisconsin Publication 125, *Credit for Tax Paid to Another State*, for more information.

Line 27 For each state, fill in the total income taxed by the other state before subtracting any standard or itemized deductions or personal exemptions. This will generally be the amount on line 24.

Note: If you claimed the manufacturing and agriculture credit, do not include in the total income taxed by the other state the amount of qualified production activities income used to compute the credit.

Line 28 For each column, from the income tax return of the other state, fill in the net tax amount (after any required proration) and after subtracting all credits (both nonrefundable and refundable credits). Do not include tax withheld or estimated tax payments as a credit.

Example: Your income tax return from the other state shows the following:

Gross tax	$ 1,000.
Less nonrefundable credit	100.
	900.
Tax withheld.	600.
Estimated tax payment	400.
Refundable credit.	100.
Refund	$ 200.

The amount to fill in on line 28 is $800. This consists of $1,000 gross tax less $100 nonrefundable credit and less $100 refundable credit.

Note: If you claimed the manufacturing and agriculture credit, do not include in the net tax paid to the other state the amount of tax paid on the qualified production activities income used to compute the credit.

Line 31 Enter Wisconsin income as reported on line 13 of Form 1 or line 32 of Form 1NPR.

For Form 2:

- If the amounts on Form 2, lines 5 and 6b are equal to or greater than 0, add Form 2, lines 5 and 6b and enter this amount on line 31.
- If the amount on Form 2, line 5 is a negative amount and Form 2, line 6b is a positive amount, enter the amount from Form 2, line 6b on line 31.
- If the amount on Form 2, line 6b is a negative amount and Form 2, line 5 is a positive amount, enter the amount from Form 2, line 5 on line 31.

Line 36 Fill in on line 36 your share of the income and franchise taxes that were measured by income and paid to another state by a tax-option (S) corporation, LLC, or partnership of which you were a shareholder, member, or partner. A credit is available for the tax paid only if the income taxed by the other state is also included in Wisconsin income. (**Note:** This is **not** the individual income tax paid on your behalf on a composite income tax return filed by the tax-option (S) corporation, LLC, or partnership. This amount should have been included above.) If you are completing line 36, also fill in on line 25 the postal abbreviation for the state to which the entity paid the tax.

The amount to fill in on line 36 is determined using the following three steps. Complete Step 1 or Step 2, depending on which step applies to you. Then, complete Step 3 to find the amount of your allowable credit.

Step 1 – Tentative Credit: All income taxable by Wisconsin

In this situation, your tentative credit is equal to the amount of net income tax paid to the other state on the income that is taxable by both Wisconsin and the other state. Use this amount to complete Step 3. If the amount of net tax paid to the other state includes income that is not included in Wisconsin income, complete Step 2 instead of Step 1. Otherwise, skip Step 2 and continue to Step 3.

Exception If the entity paid the tax to Minnesota, Iowa, Illinois, or Michigan, fill in the tentative credit computed in Step 1 on line 36 of Schedule OS. You do not have to complete Step 3.

Step 2 – Tentative Credit: Not all income taxable by Wisconsin

The amount of tax must be prorated if the income taxed by the other state includes income that is not included in Wisconsin income. For example, only a portion of capital gain on the sale of assets held more than one year is included in Wisconsin income and thus a proration is required. See the **CAUTION** and examples in the line 26 instructions for information on the taxation of capital gain on assets held more than one year.

If the amount of tax paid to the other state by the tax-option (S) corporation, LLC, or partnership includes tax on long-term capital gain (or on any other income not included in Wisconsin income), use the following formula to determine the amount of credit you may claim:

$$\frac{\text{Income taxable by both Wisconsin and other state}}{\text{Total income taxable by other state}} \times \text{Net income tax paid to other state} = \text{Tentative credit}$$

In this situation, use the amount of your tentative credit to complete Step 3.

Exception If the entity paid the tax to Minnesota, Iowa, Illinois, or Michigan, fill in the tentative credit computed in Step 2 on line 36 of Schedule OS. You do not have to complete Step 3.

Step 3 Credit limitation

The amount of credit for net tax paid to another state is limited to the lesser of the tentative credit computed in Step 1 or Step 2 or the amount of net tax payable to Wisconsin on the income taxable to both Wisconsin and the other state. Use the following formula to figure the credit limitation:

$$\frac{\text{Income taxable by both Wisconsin and other state}}{\text{Wisconsin income}} \times \text{Net income tax paid to Wisconsin} = \text{Credit limit} - \text{Line 35} = \text{Maximum credit}$$

For purposes of this Formula:

- "Wisconsin income" is the amount from line 13 of Form 1, line 32 of Form 1NPR, or line 5 of Form 2.
- "Net income tax paid to Wisconsin" is the amount from line 28 of Form 1 less the amounts on lines 29 and 30 of Form 1; line 54 of Form 1NPR less the amounts on lines 55 and 56 of Form 1NPR; or line 10 of Form 2 less the amount on line 11 of Form 2.

The amount to fill in on line 36 of Schedule OS is the lesser of (1) the tentative credit determined in Step 1 or Step 2 or (2) the maximum credit determined in Step 3.

Example: You are a shareholder in a tax-option (S) corporation. Ordinary income earned by the tax-option (S) corporation was $800,000, and you owe a total of $59,500 of Wisconsin net tax on the total amount of ordinary income passed through to you from the tax-option (S) corporation. You filed a California individual income tax return to report $500,000 ordinary income and paid net tax of $35,000 to California. The tax-option (S) corporation filed a California franchise tax return and paid $10,000 in net tax. Your credit limit is computed as follows:

$$\frac{500{,}000}{800{,}000} \times 59{,}500 = 37{,}188$$

The amount entered on line 35 of Schedule OS is $35,000. To figure the maximum credit allowed for the California franchise tax paid, use the formula under step 3 as follows:

$$\frac{500{,}000}{800{,}000} \times 59{,}500 = 37{,}188 - 35{,}000 = 2{,}188$$

This amount is entered on line 36 of Schedule OS.

For further information on tax paid by a tax-option (S) corporation, LLC, or partnership, see Part 7 of Publication 125, *Credit for Tax Paid to Another State*.

Line 42 Fill in the amount of your credit from line 42 on line 31 of Form 1, line 57 of Form 1NPR, or line 12 of Form 2. Also fill in the 2-letter postal abbreviation for the state to which you paid the tax in the space to the left of the entry line on Form 1, 1NPR, or 2 (see **Exceptions** on the next page). For example, if you paid tax to California, you would fill in CA in the space.

Exceptions

- If you paid tax to more than one other state, fill in the number **99** in the space instead of a 2-letter postal abbreviation.
- If you have an amount on line 5 of Schedule OS (capital gain/loss), fill in the number **88** in the space instead of the 2-letter postal abbreviation.
- If you have an amount on line 36 of Schedule OS (tax paid by a tax-option (S) corporation, LLC, or partnership on its income), fill in the number **77** in the space instead of the 2-letter postal abbreviation.
- If you meet the conditions above to fill in both 77 and 88, fill in the number **99** in the space.

Note: Failure to fill in the correct numerical code may result in an incorrect computer adjustment to the amount of your credit.

Enclosures Enclose Schedule(s) OS (both pages 1 and 2) with Form 1, 1NPR, or 2. You must also enclose a copy of your income tax return(s) from the other state(s) and your W-2 form(s) (wage statement) or other withholding statement(s) from the other state(s).

If you are claiming credit for tax paid to other states by a partnership, LLC, or tax-option (S) corporation, enclose a copy of the Wisconsin Schedule 3K-1 or the 5K-1 you received. If the partnership, LLC, or corporation did not file a Wisconsin return, submit federal Schedule K-1 plus a statement from the partnership, LLC, or (S) corporation listing the states where tax was paid, the type of income that was taxed, and the amount of each state's tax allocable to you.

CAUTION Processing of your return and any refund will be delayed if you do not submit both pages 1 and 2 of Schedule OS and a copy of your return from the other state and any withholding statements. Failure to submit these items will require the department to contact you.