

# Instructions for 2017 Schedule QI

## Purpose of Schedule QI

Schedule QI is used to:

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

## Who May File Schedule QI

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

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

- If there are multiple investments involved in one sale of a qualified Wisconsin business, only file one Schedule QI to reflect the entire sale. See example below.
- If there are multiple sales of investments in a qualified Wisconsin business, a separate Schedule QI must be filed for each sale.

**Example** Shares were purchased on 5-31-2011 and 6-30-2011 that qualify for a long-term capital gain exclusion. The sale of the investment includes the sale of 900 shares purchased in 2009 through 2012. Even though there are two qualified investments from 2011, there is only one sale occurring. Therefore, only one Schedule QI should be filed for the entire sale of the investment.

## General Instructions

**Exclusion of gain** Certain long-term capital gains from the sale of an investment in a qualified Wisconsin business may be excluded from income. The excludable long-term capital gain may not exceed the fair market value of the investment on the date sold, less the fair market value of the investment on the date acquired.

**Investment** A qualified Wisconsin investment means:

- Amounts paid to acquire stock or other ownership interest in a partnership, corporation, tax-option corporation, or limited liability company treated as a partnership or corporation.
- The investment was in a business that was a qualified Wisconsin business for the year of the investment and at least two of the four subsequent years, and
- The investment was made after December 31, 2010, and held for at least five uninterrupted years.

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

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

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

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

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

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

## Specific Instructions

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

**Line 2** Enter the date the first investment was made while the business was a qualified Wisconsin business. January 1, 2011, was the first date available to invest in a qualified Wisconsin Business for purposes of the exclusion.

**Note** See example 1 on page 3 of the instructions under C Corporations. This example reflects shares purchased as early as 5-31-2009; however, 5-31-2011 is the first date an investment was made when the C corporation was a qualified Wisconsin business. For this example, 05-31-2011 should be entered on line 2 of Schedule QI.

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

**Line 4** Enter the name and federal employer identification number (FEIN) of the qualified Wisconsin business. Do NOT enter the broker's information.

**Line 4a** If the exclusion you are claiming is a long-term capital gain received as pass-through income from a partnership, tax-option corporation, estate, or trust, enter the pass-through entity's name and FEIN.

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

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

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

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

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

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

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

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

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

## Sale of Investment in C Corporations

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

**Example 1**

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

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

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

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

**Line 1** Date investment sold: 08 30 2016

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

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

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

**Line 4a** If a pass-through entity sold the investment, fill in the name and FEIN of the pass-through entity.  
(See **Line 4a** instructions)  
Entity name \_\_\_\_\_  
FEIN \_\_\_\_\_

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

**Line 6** Cost or other basis adjusted for Wisconsin ..... 105000

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

**Line 8** Add line 6 and line 7 ..... 105000

**Line 9** Subtract line 8 from line 5 ..... - 15000

**Non-Taxable Long-Term Gain**

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

**Taxable Long-Term Gain**

**Line 11** Add line 6 and line 10 ..... 135000

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

**Example 2 (Deferred Gain)**

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

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

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

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

**Line 1** Date investment sold: 08 30 2016

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

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

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

**Line 4a** If a pass-through entity sold the investment, fill in the name and FEIN of the pass-through entity.  
(See **Line 4a** instructions)  
Entity name \_\_\_\_\_  
FEIN \_\_\_\_\_

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

**Line 6** Cost or other basis adjusted for Wisconsin ..... 100000

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

**Line 8** Add line 6 and line 7 ..... 105000

**Line 9** Subtract line 8 from line 5 ..... - 15000

**Non-taxable Long-Term Gain**

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

**Taxable Long-Term Gain**

<b>Line 11</b>	Add line 6 and line 10 .....	<u>130000</u>
<b>Line 12</b>	Net taxable long-term gain or (loss). Subtract line 11 from 5 .....	<u>- 40000</u>

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

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

**Example 1**

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

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

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

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

- Only the investments made on 5-31-2011 and 12-31-2011 are considered a qualified Wisconsin investment.
  - The business did not register with the Wisconsin Department of Revenue (DOR) to be a qualified Wisconsin business in 2015 and 2016; therefore, investments in XYZ made in 2009, 2010, 2015, and 2016 do not qualify.
  - The investments made in 2012, 2013, and 2014 are not qualified Wisconsin investments because the investments were not held at least five years.
- In this example, investments made by Partner A in XYZ do not include a deferred long-term capital gain from an asset previously sold.
- The allocation percentage for non-taxable qualified gain is computed as follows:
 
$$\frac{\$ 80,000}{\$200,000} = 40\%$$
  - \$80,000 reflects the FMV of qualified Wisconsin investments made in XYZ (\$30,000 + \$50,000) by Partner A on 5-31-2011 and 12-31-2011.
  - \$200,000 reflects the FMV of the total investments made in XYZ by Partner A.
- The non-taxable qualified gain is computed as follows:
 
$$\$800,000 \times 40\% = \$320,000$$

Although the capital gain on the sale of the investment is \$900,000 (\$1,000,000 - \$100,000); the excludable long-term capital gain may not exceed the fair market value of the investment on the date sold, less the fair market value of the investment on the date acquired. Therefore, the amount used to compute the non-taxable qualified long-term capital gain is limited to \$800,000 (\$1,000,000 - \$200,000).

- \$320,000 is non-taxable qualified long-term capital gain reported on line 10 of Schedule QI and must be reported on line 15a of Schedule WD. See example 2 below for how to report a sale of investment when there is a deferred long-term gain.

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

**Line 1** Date investment sold: 12 31 2016

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

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

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

**Line 4a** If a pass-through entity sold the investment, fill in the name and FEIN of the pass-through entity.  
(See **Line 4a** instructions)  
Entity name \_\_\_\_\_  
FEIN \_\_\_\_\_

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

**Line 6** Cost or other basis adjusted for Wisconsin as reported on Schedule T ..... 100000

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

**Line 8** Add line 6 and line 7 ..... 100000

**Line 9** Subtract line 8 from line 5 ..... 900000

**Non-taxable Long-Term Gain**

**Line 10** Amount you computed to be non-taxable qualified gain.  
(Enter on line 15a of Schedule WD) ..... 320000

**Taxable Long-Term Gain**

**Line 11** Add line 6 and line 10 ..... 420000

**Line 12** Net taxable long-term gain or (loss). Subtract line 11 from 5 ..... 580000

**Example 2 (Deferred Gain)**

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

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

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

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

- Only the investments made on 5-31-2011 and 12-31-2011 are considered a qualified Wisconsin investment.
  - The business did not register with the Wisconsin Department of Revenue (DOR) to be a qualified Wisconsin business in 2015 and 2016; therefore, investments in XYZ made in 2009, 2010, 2015, and 2016 do not qualify.
  - The investments made in 2012, 2013, and 2014 are not qualified Wisconsin investments because the investments were not held at least five years.





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

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

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

- Only the investments made on 5-31-2011 and 12-31-2011 are considered a qualified Wisconsin investment.
  - The business did not register with the Wisconsin Department of Revenue (DOR) to be a qualified Wisconsin business in 2015 and 2016; therefore, investments made in XYZ in 2009, 2010, 2015, and 2016 do not qualify.
  - The investments made in 2012, 2013, and 2014 are not qualified Wisconsin investments because the investments were not held at least five years.
- In this example, the Wisconsin tax basis must be increased by \$200,000 due to depreciation differences, and decreased by \$10,000 because the investment made on 5-31-2011 included a \$10,000 deferred long-term capital gain from an asset previously sold.
  - The \$200,000 increase in Wisconsin tax basis and the \$10,000 decrease in Wisconsin tax basis must be reported on Schedule T and Schedule WD.
  - The basis on line 6 of Schedule QI must be adjusted to reflect the \$200,000 increase in Wisconsin tax basis and the \$10,000 decrease in Wisconsin tax basis. This results in a \$290,000 basis (\$100,000 + \$200,000 - \$10,000) on line 6 of Schedule QI.
- The allocation percentage for non-taxable qualified gain is computed as follows:
 
$$\frac{\$ 80,000}{\$200,000} = 40\%$$
  - \$80,000 reflects the FMV of qualified Wisconsin investments made in XYZ (\$30,000 + \$50,000) by Partner A on 5-31-2011 and 12-31-2011.
  - \$200,000 reflects the FMV of the total investments made in XYZ by Partner A.
- The non-taxable qualified gain is computed as follows:
  - \$700,000 x 40% = \$280,000
  - \$700,000 is the Wisconsin gain on the sale of the investment (\$1,000,000 – (\$100,000 + \$200,000)). The amount does not exceed the fair market value of the investment on the date sold, less the fair market value of the investment on the date acquired, \$800,000 (\$1,000,000 - \$200,000). Therefore, the amount used to compute the non-taxable qualified long-term capital gain is \$700,000.
  - The \$200,000 adjustment to increase Wisconsin tax basis for depreciation differences is recognized when computing the gain used in the non-taxable qualified long-term capital gain allocation.
  - The \$10,000 adjustment to decrease Wisconsin tax basis for deferred long-term capital gain is not recognized when computing the gain used in the non-taxable qualified long-term capital gain allocation.
- \$280,000 is the non-taxable qualified long-term capital gain reported on line 10 of Schedule QI and must be reported on line 15a of Schedule WD. The net taxable capital gain from the sale of the investment is \$430,000.



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

**Line 1** Date investment sold: 12 31 2016  
**Line 2** Purchase date of initial investment in the qualified Wisconsin business: 05 31 2011  
**Line 3** Type of investment:  Stock purchase  Partnership interest  LLC membership  
**Line 4** Entity Name: XYZ LLC  
 FEIN: xx-xxxxxxx  
**Line 4a** If a pass-through entity sold the investment, fill in the name and FEIN of the pass-through entity.  
 (See **Line 4a** instructions)  
 Entity name \_\_\_\_\_  
 FEIN \_\_\_\_\_

<b>Line 5</b>	Sales price of investment as reported on federal Form 8949 . . . . .	100000
<b>Line 6</b>	Cost or other basis adjusted for Wisconsin as reported on Schedule T . . . . .	290000
<b>Line 7</b>	Deferred long-term gain included in the investment . . . . .	10000
<b>Line 8</b>	Add line 6 and line 7 . . . . .	300000
<b>Line 9</b>	Subtract line 8 from line 5 . . . . .	700000

**Non-taxable Long-Term Gain**

**Line 10** Amount you computed to be non-taxable qualified gain.  
 (Enter on line 15a of Schedule WD) . . . . . 280000

**Taxable Long-Term Gain**

**Line 11** Add line 6 and line 10 . . . . . 570000  
**Line 12** Net taxable long-term gain or (loss). Subtract line 11 from 5 . . . . . 430000

**Attachments**

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

**Additional Information**

For more information, you may:

Email your questions to [DORIncome@wisconsin.gov](mailto:DORIncome@wisconsin.gov)

Call (608) 266-2772

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