

Instructions for 2018 Schedule ET-OS

GENERAL INSTRUCTIONS

Purpose of Schedule ET-OS

Schedule ET-OS is used by tax-option (S) corporations or limited liability companies treated as a tax-option (S) corporation electing under sec. 71.365 (4m) (a), Wis. Stats., to be taxed at the entity level to compute the credit for net income tax paid to another state.

Additional information about this credit is in Publication 125, *Credit for Tax Paid to Another State*, available at revenue.wi.gov.

Who is Eligible for the Credit

A tax-option (S) corporation that makes an election under sec. 71.365 (4m) (a), Wis. Stats., may claim the credit. Shareholders of an electing tax-option (S) corporation may not claim the credit for taxes paid by the tax-option (S) corporation.

What Amounts are Eligible for the Credit

- An electing tax-option (S) corporation may compute the credit on a 2018 net income or franchise tax paid by the entity to another state or the District of Columbia if the income taxed by the other state is also taxable to Wisconsin. "State" does not include the Commonwealth of Puerto Rico or the several territories organized by Congress.
- An electing tax-option (S) corporation may also compute the credit on 2018 net income tax paid by the entity to another state on behalf of its Wisconsin resident shareholders on a composite income tax return filed with the other state. See Part B on page 2.

Limitations

The following limitations apply for 2018:

- The credit cannot be claimed for net income tax paid on behalf of shareholders that are not residents of Wisconsin.
- The credit cannot be claimed for any tax paid to a local unit of government that is not paid directly to the state (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).
- The credit cannot be claimed for net income or franchise taxes paid to another state if the income upon which the taxes were paid was also used to compute and claim the Wisconsin manufacturing and agriculture credit.
- The credit cannot be more than the amount of net tax paid by the tax-option (S) corporation 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.

Part-year resident shareholders

An electing tax-option (S) corporation may compute the credit on 2018 net income tax paid by the entity to another state on behalf of its part-year resident shareholders on a composite income tax return filed with the other state, but only on taxes paid on net income attributable to the shareholder for the portion of the year the shareholder was a resident of Wisconsin, and only if the income was taxable to both Wisconsin and the other state.

If Tax was Paid to More Than Two Other States

If the tax-option (S) corporation paid 2018 net income tax on the same income to Wisconsin and to more than two other states:

1. Complete additional Schedules ET-OS, as needed, through line 20,
2. Add the amounts from line 20 from any additional Schedules ET-OS, and
3. Fill in the total on line 21 of the first Schedule ET-OS.

LINE INSTRUCTIONS

Part A – Calculation of Credit (Entity-level tax)

Fill in the 2-letter postal abbreviation for the state to which tax was paid above line 1 in the space provided. Failure to fill in the postal abbreviation may result in the credit being denied or a delay in the processing of the return.

Line 1 - Fill in the amount of income taxable to the other state that is also taxable to Wisconsin (for example, ordinary income from trade or business activities, long-term capital gain, interest, etc.). **Note:** If a manufacturing and agriculture credit is computed, 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 manufacturing and agriculture credit.

Line 2 - For each state, fill in the amount of income that is taxed by the other state. **Note:** If a manufacturing and agriculture credit is computed, do not include in the total income taxed by the other state the amount of qualified production activities income used to compute the manufacturing and agriculture credit.

Line 4 - For each column, from the income or franchise 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). Enclose a copy of the other state's income or franchise tax return. **Note:** If a manufacturing and agriculture credit is computed, 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 manufacturing and agriculture credit.

CAUTION Do not include tax withheld or estimated tax payments as a credit.

Part B – Calculation of Credit (Tax paid on behalf of Wisconsin resident members on a composite return)

Line 6 - Fill in the amount of income taxable to the other state that is also taxable to Wisconsin for the resident shareholder(s) (for example, ordinary income from trade or business activities, long-term capital gain, interest, etc.). **Note:** If a manufacturing and agriculture credit is computed, 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 manufacturing and agriculture credit. Only reduce the income by the amount of qualified production activities income allocated to the shareholders for whom the tax-option (S) corporation is paying tax on a composite income tax return with the other state.

Line 7 - For each state, fill in the amount of income that is taxed by the other state **before** subtracting any standard or itemized deductions or personal exemptions. **Note:** If a manufacturing and agriculture credit is computed, do not include in the total income taxed by the other state the amount of qualified production activities income used to compute the manufacturing and agriculture credit. Only reduce the income by the amount of qualified production activities income allocated to the shareholders for whom the tax-option (S) corporation is paying tax on a composite income tax return with the other state.

Line 9 - 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). Enclose a copy of the other state's composite income tax return. **Note:** If a manufacturing and agriculture credit is computed, 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 manufacturing and agriculture credit. Only reduce the tax by the amount of tax paid on qualified production activities income allocated to the shareholders for whom the tax-option (S) corporation is paying tax on a composite income tax return with the other state.

Part C – Credit Allowed

Line 11 - Fill in the amount of income taxable to both Wisconsin and the other state. This should include amounts entered on lines 1 and 6, but do not include the same amount twice.

Example: The income which is taxable to another state for which the tax-option (S) corporation paid the other state an individual income tax on a composite return and an income tax on a corporate return is as follows (assume the tax paid to the other state on the composite income tax return is entirely for Wisconsin resident shareholders):

Type of Income	Composite Return	Corporate Return
Ordinary income	\$40,000	\$20,000
Interest		5,000

The tax-option (S) corporation paid an individual income tax on a composite return to the other state on \$40,000 of ordinary income of which the full amount is also taxable to Wisconsin. The entity paid an income tax on a corporate tax return on a portion of this income. The entity also paid an income tax on a corporate return to the other state on \$5,000 of interest income of which the full amount is also taxable to Wisconsin. The interest was exempt from taxation to the other state at the individual level. The amount to enter on line 11 is \$45,000 (\$40,000 of ordinary income plus \$5,000 of interest income).

Enclosures Enclose Schedule ET-OS with Schedule 5S-ET. You must also enclose a copy of the tax-option (S) corporation's income or franchise tax return(s) from the other state(s). If the entity is claiming credit for tax paid to other states on behalf of their shareholder(s) on a composite income tax return, enclose a copy of the composite income tax return from the other state.

CAUTION Processing of the return and any refund will be delayed if a copy of the return from the other state is not submitted. Failure to submit these items will require the department to contact the tax-option (S) corporation.