

# WISCONSIN TAX BULLETIN

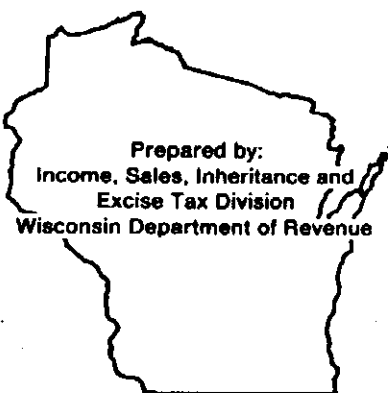
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## WISCONSIN DEPARTMENT OF ADMINISTRATION

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## INTEREST FROM GNMA NOW TAXABLE

As a result of the United States Supreme Court decision in the case of *Rockford Life Insurance Company vs. Illinois Department of Revenue et al.*, income received from financial instruments known as Government National Mortgage Association bonds ("Ginnie Maes") is not exempt from state taxation under section 3701 of the United States Code.

The Wisconsin Department of Revenue has issued an emergency rule amending

section Tax 3.095, Wis. Adm. Code, effective for interest accrued on or after August 1, 1987. This rule now provides that interest received from "Ginnie Maes" and similar instruments, including Farmers Home Administration insured notes and Small Business Investment Company debentures, is subject to Wisconsin income tax.

(Note: Interest accrued before August 1, 1987, from "Ginnie Maes" and similar instruments is exempt from Wisconsin income taxation.)

## WISCONSIN INFORMATION RETURNS NOT REQUIRED FOR INTEREST AND DIVIDENDS

Payments of interest and dividends made during 1987 and thereafter are no longer required to be reported on Wisconsin information returns. The Wisconsin reporting requirements for these items were repealed by 1987 Wisconsin Act 27.

The reason for the repeal of the Wisconsin interest and dividend reporting requirements is the extensive document matching program currently performed by the Internal Revenue Service on federal information returns which include these same income items. The department has an exchange agreement with the IRS and receives information from IRS as to the results of its matching program. Therefore, it is not necessary for the Wisconsin Department of Revenue to continue a separate audit program for these items.

**Important:** This change in Wisconsin law does not affect information returns for interest and dividends which are required to be filed by federal law with the IRS.

## NO CHANGE IN WISCONSIN WITHHOLDING TABLES

Although the income tax rates for individuals have been changed for the 1987

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taxable year, there is no plan to change the withholding tables.

Employer's should **not** use the new Wisconsin tax rates to calculate withholding at this time. The withholding tables and rates set forth in the Wisconsin Employer's Withholding Tax Guide dated January 1986 (effective for payroll periods beginning on or after January 1, 1986) should continue to be used until further notice.

## INCREASE IN IRS STANDARD MILEAGE RATE ALSO APPLIES FOR WISCONSIN FOR 1987

The optional standard mileage rate specified by the IRS for computing business automobile expenses for 1987 also applies for Wisconsin. The IRS increased the rate from 21¢ to 22.5¢ for the first 15,000 business miles driven in an automobile that is not fully depreciated. After 15,000 miles of business use in one year and for all mileage on a fully depreciated automobile, the rate remains at 11¢ per mile. If the optional method for computing costs of business use of an automobile is used, depreciation is considered to be allowed at 10¢ per mile for 1987.

The mileage rate used to calculate automobile expenses for charitable deduction purposes, which remains at 12¢ a mile in 1987, also applies for Wisconsin.

For both federal and Wisconsin purposes, a rate of 9¢ per mile is used to calculate automobile expenses for medical and moving expense deductions.

## FORM CHANGES FOR 1987

Following is a brief description of many of the changes made to the income tax, homestead credit, and farmland preservation credit forms for 1987.

### 1. Income Tax (Forms 1, 1A, WI-Z and 1NPR)

- Tax district area is redesigned to eliminate errors.
- Renter and homeowner's credit is replaced with the school property tax credit.
- Check boxes for refunds less than \$2 previously at the bottom of each form are eliminated.
- Married couple credit schedules on the back of Forms 1 and 1A and last page of Form 1NPR have been revised.
- Location of the married couple credit entry line now appears after the alternative minimum tax entry line on Form 1 (line 15) and Form 1NPR (line 41).
- Entry lines for the federal married couple deduction and moving expenses to move from Wisconsin are eliminated from Schedule 1 on the back of Form 1.
- New entry lines are added to Schedule 2 on the back of Form 1 for non-taxable unemployment compensation and the capital gain/loss adjustment.
- Schedules for computing the itemized deduction credit on the last pages of Forms 1 and 1NPR have been revised because there are additional items that may be used in computing the credit.
- Line for IRA penalties on Form 1 (line 18) and Form 1NPR (line 44) is changed to "penalties on retirement plans."
- Entry lines for total and taxable unemployment compensation received have been added to Form 1A (lines 4a and 4b). A schedule to determine taxable unemployment compensation is also added on the back of Form 1A.

- Line titles on Form 1NPR have been reworded to conform with changes to the federal income tax returns.
- Entry lines for the self-employed insurance deduction and repayment of supplemental unemployment benefits have been added to Form 1NPR (lines 19 and 23).
- Caution has been included on line 36 of Form 1NPR advising nonresidents that they are not eligible for the school property tax credit.

### 2. Homestead Credit (Schedule H)

- Question is added relating to business use of property (line 6).
- Schedule on the back of Schedule H and entry lines on the front are added due to a change in the definition of household income.
- Space is added so that claimants may indicate the date an income tax return was previously filed (line 9).
- Rent line (line 14) has been changed whereby entry will depend on whether heat was included in rent paid.
- Rent certificate is revised, removing the entry lines for the value of utilities, furnishings, and other items. In addition, the computation of rent that may be used on Schedule H is changed.

### 3. Farmland Preservation Credit (Schedule FC)

- A schedule titled "Income Adjustments" is added to the back of Schedule FC for claimants to enter household income. The total is brought to the front of Schedule FC.
- Entry lines for real estate taxes have been reduced to one line (line 11).
- Schedule of addback items has been expanded due to changes in the definition of household income (Schedule 3 on back of Schedule FC).

#### 4. Other Form Changes

- Schedule MT is new this year and is used by individuals, estates, and trusts to compute Wisconsin alternative minimum tax.
- Schedule WD has been developed to report capital gains and losses for Wisconsin individual income tax purposes.

Copies of the 1987 Wisconsin Forms 1, 1A, WI-Z, and 1NPR are included on pages 22 through 30 of this issue.

### NEW TAX-OPTION (S) CORPORATION TAX FORMS FOR 1987

As reported in Wisconsin Tax Bulletin Number 52, the legislature has enacted a corporate tax reform plan which federalizes Wisconsin's corporate franchise or income tax law. Beginning with the 1987 taxable year, corporations will compute their net income under the Internal Revenue Code as amended to December 31, 1986, with certain exceptions. Additionally, the treatment of tax-option (S) corporation income has been revised to allow the pass-through to the corporation's shareholders of individual items of income, loss, and deduction.

The corporation franchise or income tax forms have been redesigned to reflect the law changes. All tax-option (S) corporations must use Form 5S. Multistate corporations, other than tax-option (S) corporations, that determine their net income by either the apportionment method or the separate accounting method must use Form 4. Corporations, other than tax-option (S) corporations, whose entire business income is attributable to and taxable by Wisconsin must use Form 5.

Beginning with the 1987 taxable year, a corporation that is an S corporation for federal tax purposes may elect not to be a tax-option (S) corporation for Wisconsin tax purposes. Corporations that have

elected out of tax-option status for Wisconsin by filing Form 5E must file Form 4 or Form 5. Special instructions for filing Form 4 or Form 5 are included on the back of Form 5E.

See pages 31 through 33 for a copy of the 1987 Form 5S.

### COMBINED WISCONSIN INCOME TAX RETURN FOR NONRESIDENT PARTNERS

A partnership that operates in Wisconsin and has two or more nonresident partners who derive no taxable income from Wisconsin other than their distributive shares of Wisconsin partnership income may file a combined individual income tax return on behalf of those partners, beginning in 1987. The partnership will file this combined return on Form 1CNP.

A partner may not participate in this combined return in any of the following cases:

- The partner is a partnership or corporation.
- The partner files his or her individual income tax return on a fiscal year basis.
- The partner is a resident of Wisconsin during any part of 1987.
- The partner derives taxable income from Wisconsin in 1987 other than his or her distributive share of partnership income.

Each qualifying and participating partner's distributive share of partnership income for partnership years ending January 31, 1987, through December 31, 1987, is reported on a 1987 Form 1CNP. The combined return replaces the separate 1987 Wisconsin individual income tax returns that would be filed by each of the qualifying and participating nonresident partners.

Form 1CNP will require the partnership to compute the total Wisconsin partner-

ship income of the qualifying and participating nonresident partners. This income will be allocated to each of the partners and tax will be computed on their distributive shares. No deductions or credits will be allowed. The partnership can make combined estimated tax payments of behalf of the nonresident partners. The partners' balances due or overpayments will be totaled on Form 1CNP, and one remittance will be submitted by the partnership or one refund check will be issued to the partnership.

The 1987 Form 1CNP will be due on April 15, 1988. If the partnership is granted an extension by the federal Internal Revenue Service for filing its federal return, this automatically gives a Wisconsin extension to file Form 1CNP to the same extended due date. A copy of the federal extension should be attached to the Form 1CNP filed with the department.

Form 1CNP will be available in December, 1987 from any Department of Revenue office or by calling (608) 266-1961. Additional information about the combined individual income tax return may be obtained by writing Diane Hardt, Director, Tax Processing Bureau, Post Office Box 8903, Madison, Wisconsin 53708 or by calling (608) 267-5190.

### AUTOMATE PROCESSING OF 1988 INDIVIDUAL ESTIMATED TAX PAYMENTS

Estimated tax payment vouchers for individuals (Form 1-ES) will be printed with scan lines in a machine-readable font beginning with the 1988 taxable year. The scan line on each voucher will include taxpayer identification information, and the voucher and payment will be processed on optical character recognition (OCR) equipment at the State's depository bank. The bank will then forward the taxpayer identification and payment information to the Department of Revenue via computer tape.

Individuals who made estimated tax payments in 1986 or 1987, or who were assessed underpayment penalties for failing to make estimated tax payments in 1986, will automatically be mailed 1988 forms with the personalized scan line printed on the forms. These forms will be mailed during the week of January 25, 1988.

Individuals who are making estimated tax payments for the first time will need to use department-printed forms that have a generic scan line that can still be processed on the OCR equipment. These forms may be obtained by writing the Wisconsin Department of Revenue, Shipping and Mailing Section, Post Office Box 8903, Madison, Wisconsin 53708 or calling (608) 266-1961.

Printers of substitute forms must meet department specifications and obtain department approval of the substitute forms. Department approval or additional information may be obtained by writing James Warner at the Wisconsin Department of Revenue, Processing Bureau, Post Office Box 8903, Madison, Wisconsin 53708.

## **WISCONSIN WITHDRAWS FROM GREAT LAKES INTERSTATE SALES COMPACT**

As reported in Wisconsin Tax Bulletin 48, Wisconsin, along with Illinois, Indiana, Michigan, Minnesota, and Ohio signed the Great Lakes Interstate Sales Compact as a means of increasing compliance with use tax laws, primarily with respect to transactions made across state boundaries.

Wisconsin will no longer be able to participate in the Great Lakes Interstate Sales Compact. The Budget/Revenue Bill passed by the Legislature in July 1987 included a provision requiring Wisconsin to withdraw from the Compact. Governor Thompson vetoed this provision in the bill when he signed it on July 31, 1987.

However, in his veto message he indicated that the state would withdraw from the Compact by executive order.

Governor Thompson issued an executive order for withdrawal from the Compact on August 31, 1987. In a letter sent September 15, 1987, Secretary Case notified the other members of the Compact of Wisconsin's withdrawal from the Compact.

## **PACKAGE WI-X REVISED FOR 1987**

The department will again be offering Package WI-X which will contain actual size copies of most 1987 Wisconsin individual, fiduciary, and corporation income tax, gift tax, inheritance tax, motor fuel tax, sales tax, and withholding tax forms.

Some revisions to the 1987 Package WI-X include increasing page size, perforating pages, and printing a title on the spine of the book. Content is primarily the same as in 1986.

Package WI-X should be available by December 31, 1987. The cost is \$5.00 per copy. This year, the Package WI-X may be ordered on the bulk order blank (Form P-744). The bulk order blank was mailed in October. See the following article for more information on bulk orders.

If you do not receive an order blank and wish to purchase copies of 1987 Package WI-X, requests indicating the number of copies wanted along with the amount due should be mailed to: Wisconsin Department of Revenue, Shipping and Mailing Section, P. O. Box 8903, Madison, Wisconsin 53708.

## **BULK ORDERS OF TAX FORMS**

In October, the department mailed the order blank (Form P-744) which practitioners and other persons or organizations should use to request bulk orders of 1987 Wisconsin income tax forms. As in past years, professional tax preparers are subject to a handling charge on their orders. No charge is made for forms used for distribution to the general public (for example, in a bank, library or post office).

This year's mailing list for bulk order blanks contains the names of all persons and organizations who placed orders for 1986 forms. If you are not on this mailing list and do not receive a Form P-744 you may request the bulk order blank by contacting any department office or by writing to the Wisconsin Department of Revenue, Central Services Section, P.O. Box 8903, Madison, Wisconsin 53708. You may also call the Shipping and Mailing Section at (608) 266-1961.

Orders should be placed as early as possible after you receive the order blank. By receiving the orders early, the department can better identify possible shortages of specific forms. Practitioner orders received by December 1, 1987, will be mailed by January 4, 1988, and other orders received by December 1, 1987, will be mailed early in January.

## **TAXPAYERS TO RECEIVE FORMS 1099-G IN JANUARY 1988**

An information return, Form 1099-G, will be mailed to taxpayers who received a Wisconsin income tax refund in 1987. Only such taxpayers who claimed itemized deductions on their 1986 federal income tax returns should receive Forms 1099-G. Section 6050E of the Internal Revenue Code requires the Department of Revenue to send this 1987 information return to taxpayers.