

Question and Answer

Q I found that I owed additional tax when I completed my 1994 income tax return. What can I do to make sure my 1995 return will not show a balance due?

A You can either increase the amount of Wisconsin income tax withheld from your wages or make estimated tax payments for 1995. To increase the amount of income tax to be withheld from your wages, file a new Form WT-4, Employee's Wisconsin Withholding Exemption Certificate, with your employer. Estimated tax payments should be submitted with Form 1-ES. (Note: In general, if you do not have sufficient tax withheld from your wages, you are required to make estimated tax payments if you expect that you will owe \$200 or more with your Wisconsin tax return.)

Q I am getting a large refund of Wisconsin tax each year. What can I do so that my employer withholds less tax from my wages?

A You should first determine if your withholding can be reduced a sufficient amount by claiming additional withholding exemptions. If you are not claiming the maximum number of exemptions allowed, you may decrease your withholding by claiming an increased number of exemptions. (Note: Each additional withholding exemption claimed will reduce your withholding by \$20 on an annual basis.)

If you are claiming the maximum number of exemptions allowed and your withholding is still more than

your estimated tax liability, you may file Form WT-4A, Wisconsin Employee Withholding Agreement, to decrease the amount of tax to be withheld. A copy of Form 4T-4A is filed both with your employer and the Department of Revenue.

Q I file my federal return using a filing status of "qualifying widow(er) with dependent child." What is my filing status for Wisconsin?

A You should use the "head of household" filing status for Wisconsin. A person who qualifies to file his or her federal return as a "qualifying widow(er) with dependent child" may use either the "head of household" or the "single" filing status. Because a person filing as "head of household" is allowed a greater standard deduction, it will be advantageous to use the "head of household" filing status.

Q My wife and I keep a boat in a rented dock slip at a nearby lake during the summer. I understand that sales tax is due for the slip rental. My question concerns winter boat storage.

The owner of the marina where we keep our boat pulls our boat out of the water and onto his land in the autumn, and returns it to the water in the spring. Is Wisconsin sales tax due on this winter storage service?

A Yes. Charges for docking and storing boats are subject to Wisconsin sales tax. ☐

Income, Sales Tax Evaders Charged

In October 1994, criminal charges were filed in ten different counties against 26 persons, for evading state sales taxes. The 26, who all purchased used motor vehicles, were suspected of underreporting the purchase prices when registering the vehicles. Department of Revenue special agents have investigated over 75 similar cases, representing over \$38,000 in unreported sales taxes.

If convicted, the 26 persons charged each face up to 30 days in jail and fines up to \$500. In addition, most of the other persons have received assessments for additional taxes, interest, and penalties.

In February 1995, a self-employed Milwaukee area bookkeeper, Julie L. Zorn, 34, 7701 West Casper Street, pleaded guilty, in Milwaukee County Circuit Court, to charges of theft, forgery, and income tax evasion.

Between 1991 and 1993, Zorn operated a bookkeeping service, J&A Confidential Services, in which she did bookkeeping for the Rheumatic Disease Center. Prosecutors alleged that, during that time, Zorn inflated the hours she worked at the Rheumatic Disease Center and forged the signatures of doctors on checks, embezzling over \$157,000.

It was also alleged that Zorn altered her own payroll records at the Rheumatic Disease Center, and filed fraudulent state income tax returns for 1991, 1992, and 1993, evading \$10,985 in state income taxes during those years.

Zorn could be sentenced to up to twenty-five years in prison and fined up to \$30,000.

Also in February, Racine businessman Alan J. Sapko, 41, 333 Lake Avenue, entered a no contest plea in a scheme to evade state sales taxes related to the purchase of a boat.

According to the criminal complaint, Sapko purchased a 47 foot boat in March 1994 for \$275,000. Sapko altered the bill of sale to make it look like he paid only \$27,500 for the boat. He then registered the boat using the altered records and evaded \$12,375 in state sales taxes. At the time he registered it, he told a Department of Natural Resources agent that he got the boat for only \$27,500 because both the hull and the engines had been damaged.

In a plea negotiation, Sapko pleaded no contest to one misdemeanor count of obstructing an officer, for lying about the purchase price at the time he registered the boat. Racine County Circuit Judge Stephen Simanek found Sapko guilty, fined him \$2,000, and further ordered him to pay an additional \$7,004 to the Department of Revenue for interest and a civil fraud penalty, for understating the purchase price of the boat. Sapko previously paid the \$12,375 in additional taxes during the investigation. □

Felony Theft Conviction for Failure to Pay Sales Tax

In January 1995, Racine businessman John R. Balestrieri, 37, 2512 LaSalle Street, pleaded guilty to felony theft by a trustee, for failure to remit sales taxes that he collected. He was convicted in Racine County District Court by Judge Emmanuel J. Vuvunas.

Balestrieri, who operates The Flower Shop, 3900 Erie Street, had been charged with collecting but failing to remit to the state \$11,714.13, between January 1992 and March 1994. Department of Revenue investigators

had alleged that Balestrieri used the tax monies to pay his own salary, satisfy a debt on a corporate bank loan, and pay off other vendors.

Balestrieri could be sentenced to a maximum of up to two years in prison and \$10,000 in fines. □

Farmers Receive Nearly \$46 Million in Tax Credits

Nearly \$46 million in direct benefits were distributed to Wisconsin farmers in 1994 through two state programs, the farmland preservation credit program and the farmland tax relief credit program. About 23,500 Wisconsin farmers claimed farmland preservation credits amounting to \$29.9 million, and 61,000 farmers received farmland tax relief credits totalling \$15.9 million in 1994.

Farmland Preservation Credit

Benefits averaging \$1,274 per claimant were distributed through the farmland preservation credit program, which is intended to help protect farmland through local land use planning and soil conservation practices.

To qualify for a benefit under this program, farmland must be zoned for exclusive agricultural use or be subject to a farmland preservation agreement between the farmer and the state. About 83% of the claims were for land under zoning and 17% were for land covered by agreements.

Farmland Tax Relief Credit

Farmland tax relief credits averaging \$260 were paid to farmers statewide in 1994. These credits equal 10% of the first \$10,000 of property taxes on qualifying farmland, exclusive of improvements. This program, which is in addition to the farmland preservation credit, provides direct benefits to virtually all farmers in the state. □

Tax Publications Available

The Department of Revenue publishes over 40 publications that are available, free of charge, to taxpayers or practitioners. To order any of the publications, write or call Wisconsin Department of Revenue, Shipping and Mailing Section, P.O. Box 8903, Madison, WI 53708-8903 (telephone (608) 266-1961).

Number	Title of Publication (and last revision date)
102	Wisconsin Tax Treatment of Tax-Option (S) Corporations and Their Shareholders (12/94)
103	Reporting Capital Gains and Losses for Wisconsin by Individuals, Estates, Trusts (10/94)
104	Wisconsin Taxation of Military Personnel (8/94)
109	Tax Information for Married Persons Filing Separate Returns and Persons Divorced in 1994 (10/94)
111	How to Get a Private Letter Ruling From the Wisconsin Department of Revenue (3/94)
112	Wisconsin Estimated Tax and Estimated Surcharge for Individual, Estates, Trusts, Corporations, Partnerships (8/94)
113	Federal and Wisconsin Income Tax Reporting Under the Marital Property Act (11/94)
114	Wisconsin Taxpayer Bill of Rights (11/94)
116	Income Tax Payments Are Due Throughout the Year (12/91)
117	Guide to Wisconsin Information Returns (9/94)

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| 118 | Electronic Funds Transfer Guide (12/94) | 500 | Tax Guide for Wisconsin Political Organizations and Candidates (12/94) |
| 119 | Limited Liability Companies (LLCs) (1/95) | 501 | Field Audit of Wisconsin Tax Returns (12/92) |
| 120 | Net Operating Losses for Individuals, Estates, and Trusts (11/94) | 502 | Directory of Free Publications (12/94) |
| 200 | Sales and Use Tax Information for Electrical Contractors (7/94) | 503 | Wisconsin Farmland Preservation Credit (12/94) |
| 201 | Wisconsin State and County Sales and Use Tax Information (9/94) | 504 | Directory for Wisconsin Department of Revenue (12/94) |
| 202 | Sales and Use Tax Information for Motor Vehicle Sales, Leases, and Repairs (7/94) | 505 | Taxpayers' Appeal Rights of Office Audit Adjustments (6/92) |
| 203 | Sales and Use Tax Information for Manufacturers (12/94) | 506 | Taxpayers' Appeal Rights of Field Audit Adjustments (11/91) |
| 205 | Do You Owe Wisconsin Use Tax? (Individuals) (5/94) | 507 | How to Appeal to the Tax Appeals Commission (8/92) |
| 206 | Sales Tax Exemption for Nonprofit Organizations (9/90) | 508 | Wisconsin Tax Requirements Relating to Nonresident Entertainers (8/94) |
| 207 | Sales and Use Tax Information for Contractors (7/94) | 509 | Filing Wage Statements and Information Returns on Magnetic Media (3/94) |
| 210 | Sales and Use Tax Treatment of Landscaping (5/94) | 600 | Wisconsin Taxation of Lottery Winnings (11/93) |
| 211 | Sales and Use Tax Information for Cemetery Monument Dealers (10/91) | 601 | Wisconsin Taxation of Pari-Mutuel Wager Winnings (3/94) |
| 212 | Businesses: Don't Forget About Use Tax (9/94) | 700 | Speakers Bureau presenting ... (2/93) |
| 213 | Travelers: Don't Forget About Use Tax (3/94) | W-166 | Wisconsin Employer's Withholding Tax Guide (9/90) □ |
| 214 | Do You Owe Wisconsin Use Tax? (Businesses) (9/93) | | |
| 216 | Filing Claims for Refund of Sales or Use Tax (12/94) | | |
| 400 | Wisconsin's Temporary Recycling Surcharge (12/94) | | |
| 410 | Local Exposition Taxes (11/94) | | |

IRS Picks Up Speed on the Information Superhighway

Note: the following article was submitted by John T. Ader, Director, Milwaukee District, Internal Revenue Service

We live in an age of computers. Recognizing that, the Internal Revenue

Service and the Wisconsin Department of Revenue are both working to find new ways to use computers to help taxpayers and tax professionals meet their filing requirements.

The IRS now offers several filing methods for people looking for alternatives to the traditional paper forms. Two systems using computers — Electronic Filing and the 1040PC — are operating nationwide.

Electronic Filing

Electronic filing, in which accepted participants send tax filing data for their clients to the IRS from their computers, is available for balance due as well as refund returns. This means taxpayers can file returns earlier while still making tax payments by the April tax deadline. For taxpayers receiving refunds, electronic filing means a faster refund and the option of having the money deposited directly into their bank accounts.

Wisconsin was one of the first states in the nation to offer electronic filing, which was first tested in 1986. Nationwide, electronic filing of federal tax returns grew to about 13.5 million individual returns in 1994. We believe that 15.5 million returns will be filed electronically this year.

Wisconsin was also one of the first states in which taxpayers were able to file their state returns electronically as well as their federal.

1040PC Program

Home computer users can shorten their paperwork and choose direct deposit of their refunds with tax preparation software that uses the 1040PC format. Unlike traditional forms, which may have many blank lines, the 1040PC format only prints lines with entries. The result is a three-column list that can, for example, cut a regular 12-page return to two pages. Taxpayers sign the

1040PC printout and attach their W-2 forms and any other signature documents. These are mailed to the IRS. Standard computers and printers produce the 1040PC format on plain paper.

When a refund is due, the software may give the taxpayer the option of entering the information for a direct deposit to the taxpayers' bank account. When additional tax is due, the program prints out a voucher to accompany the payment. The taxpayer can send everything at once, or mail the 1040PC upon completion, and subsequently send the payment voucher and check to the IRS.

Benefits of Electronic Filing & 1040PC

These alternatives offer such benefits as:

- More accurate returns. Returns filed electronically or in the 1040PC format are more accurate because the software programs involved catch and correct mistakes while preparing the returns. If there are errors on electronically-filed returns, the system alerts the senders within a day or two so they can make corrections and retransmit the return. 1040PC format returns are easier for IRS data transcribers to process, reducing errors.
- Acknowledgments of receipt. Usually within 24 hours, the electronic filer receives a message that the IRS has accepted the return for processing.
- Earlier refunds. When the IRS receives complete, accurate computer-ready data, it can usually issue refunds within three weeks, compared to 40 days for paper returns. The refund arrives even sooner when a taxpayer elects to have the money deposited directly into a

savings or checking account. For alternatives which involve Direct Deposit, there's also greater security — no lost or stolen checks.

Tax Forms on CD-ROM

Tax professionals with PCs can get 1040s on CD from IRS. Or, in plain English, the Internal Revenue Service now provides federal income tax forms and publications on CD-ROM for people who have computers.

Using the CD-ROM, people can view 1994 tax forms and publications on their computer screens and print them. The CD-ROM is not a tax preparation software package.

The three-CD series can be ordered for \$69 through the Government Printing Office Superintendent of Documents. Call 202-512-1800 and ask for stock no. 648-094-00004-3. Or order through the GPO Federal Bulletin Board on 202-512-1387. Tax practitioners can fill out the order form in IRS Publication 1045, *Information for Tax Practitioners*.

IRS Goes On-Line with FedWorld

The Internal Revenue Service has gotten in line (or rather on-line) by offering federal income tax forms on FedWorld, a service that calls itself the electronic marketplace for government information. FedWorld was created in 1992 by the National Technical Information Service, within the Technology Administration of the U.S. Department of Commerce. It is an on-line network that provides the general public with government information from over 60 agencies. To date, FedWorld has been accessed over 1 million times.

If you have a computer and a modem, you will also have instant access to details about free IRS assistance programs, electronic tax filing, an-

swers to commonly asked questions, and publications.

For people in the United States and especially those living abroad, access to IRIS means instant access to forms and information that would have previously taken days or weeks to receive.

People can download and print forms, publications and monthly newsletters. Once printed, on-line tax forms can be filled in and mailed off just like standard forms.

FedWorld can be dialed-direct by setting modem parity to none, data bits to 8, stop bit to 1, terminal emulation to ANSI, duplex to full, and communication software to dial 703-321-8020.

FedWorld is available free over the Internet, which can be accessed by setting the telnet to fedworld.gov (192.239.93.3). For Internet File Transfer Protocol (FTP) services, connect to ftp.fedworld.gov (192.239.92.205).

Technical questions regarding FedWorld can be directed to the FedWorld help desk 24 hours a day at 703-487-4608.

Coming Soon for Wisconsin Taxpayers: TeleFile

The IRS will expand TeleFile, its telephone filing system, to more states next year. We hope that Wisconsin will be one of those states. TeleFile is offered to single taxpayers with income under \$50,000 who file Form 1040EZ. To use TeleFile, they must not have any name or address changes to their tax package label.

Last year, the IRS received 500,000 TeleFile returns. A typical TeleFiler was 25 years old and had income of \$10,000 with about \$25 of interest

income. Asked why they used TeleFile, taxpayers most often mentioned the faster refunds, ease of filing, and convenience. More than 700,000 TeleFile returns are expected this year.

TeleFilers prepare for their call by writing down their interest income, their total wages, and the amount of tax withheld. Then, using a Touch-Tone phone, they call a toll-free number and enter the requested information. The telephone call takes five to seven minutes. The IRS will figure the adjusted gross income, the tax, and any refund or tax due while the taxpayer is on the phone. Refunds will be sent about three weeks after the telephone filing. Any tax due can be paid by the April tax deadline.

IRS & WDOR: Moving into the Future Together

All of these systems enable IRS to process accurate information more quickly and effectively. Joint federal-state electronic filing is an excellent example of a system which enables us to take advantage of technology and reduce the cost of government. That saves tax dollars. And that's important to all of us. □

Administrative Rules in Process

Listed below are proposed new administrative rules and changes to existing rules that are currently in the rule adoption process. The rules are shown at their stage in the process as of April 1, 1995, or at the stage in which action occurred during the period from January 2, 1995 to April 1, 1995.

Each affected rule lists the rule number and name, and whether it is amended (A), repealed (R), repealed and recreated (R&R), or a new rule (NR).

Rules Sent to Legislative Council Rules Clearinghouse

- 2.89 Estimated tax requirements for short taxable years-NR
- 2.96 Extensions of time to file corporation franchise or income tax returns-R&R
- 3.03 Dividends received deduction — corporations-R&R

Rules Sent to Revisor for Publication of Notice

- 11.04 Constructing buildings for exempt entities-A

Rules Sent for Legislative Committee Review

- 11.13* Direct pay-NR
- 11.14* Exemption certificates, including resale certificates-A

* hearing held 2/13/95

Rules Adopted But Not Yet Effective

- 2.03 Corporation returns-R&R
- 2.04 Information returns and wage statements-R&R
- 2.08 Returns of persons other than corporations-R&R
- 2.10 Copies of federal returns, statements, schedules, documents, etc. to be filed with Wisconsin returns-R&R
- 2.39 Apportionment method-A

Rules Adopted and in Effect (adoption date February 1, 1995)

- 2.97 Earned income credit eligibility-NR

Emergency Rule in Effect

- 11.13* Direct pay-NR

* hearing held 2/13/95

Recently Adopted Rules Summarized

Reproduced below is the text of a new administrative rule, sec. Tax 2.97, "Earned Income Credit Eligibility," adopted effective February 1, 1995.

Section Tax 2.97 was created to describe a person's eligibility for the Wisconsin earned income credit, as a result of a law change creating a Wisconsin earned income credit computed separately from the federal credit. The text of sec. Tax 2.97 is as follows:

Tax 2.97 EARNED INCOME CREDIT ELIGIBILITY. (s. 71.07(9e)(ad), (ah), (ap) and (at), Stats.) (1) GENERAL. Under s. 71.07(9e)(ad), (ah), (ap) and (at), Stats., certain persons may claim an earned income credit based on the person's earned income or federal adjusted gross income.

(2) DEFINITIONS. In this section:

(a) "Earned income" means:

1. Wages, salaries, tips and other employee compensation.

2. The amount of the person's net earnings from self-employment for the taxable year within the meaning of s. 1402(a) of the internal revenue code, but net earnings shall be determined with regard to the deduction allowed to the person under s. 164(f) of the internal revenue code.

(b) "Qualifying child" means, with respect to any person for any taxable year, an individual:

1. Who meets the relationship test described in sub. (5)(a).

2. Who, except as provided in sub. (5)(a)3, has the same principal place of abode as the person for more than one-half of the taxable year.

3. Who meets the age requirements of sub. (5)(b).

4. Whom the person properly identifies under the requirements of sub. (5)(c).

(3) PERSONS ELIGIBLE FOR THE CREDIT. (a) Except as provided in pars. (b), (c) and (d), a person who has a qualifying child for the taxable year may claim the earned income credit.

(b) A person may not claim the earned income credit for the taxable year if the person is the qualifying child of another person for that taxable year.

Example: You and your daughter lived with your mother during the taxable year. Both you and your mother meet all the requirements for the earned income credit for the taxable year.

Your daughter is your qualifying child. Both you and your daughter are qualifying children of your mother.

You cannot take the earned income credit because you are your mother's qualifying child.

(c) If 2 or more persons would be treated as eligible for the credit with respect to the same qualifying child for taxable years beginning in the same calendar year, only the person with the highest federal adjusted gross income for the taxable year may claim the earned income credit with respect to the qualifying child.

Example: You and your 5-year-old son moved in with your mother in April. You are not a qualifying child of your mother. Your son meets the conditions to be a qualifying child for both you and your mother. Your federal adjusted gross income for the taxable year was \$7,000 and your mother's was \$14,000. Since your mother's federal adjusted gross income was higher, only your mother may claim the earned income credit with respect to your son.

(d) A person who claims the foreign earned income exclusion under s. 911 of the internal revenue code for the taxable year may not claim the earned income credit.

(4) **EARNED INCOME COMPUTATION.** (a) The earned income of a person shall be computed without regard to any marital property laws.

(b) No amount received as a pension or annuity may be taken into account in computing earned income.

(c) No amount to which s. 871(a) of the internal revenue code applies, relating to income of nonresident alien individuals not connected with United States business, may be taken into account in computing earned income.

(5) **"QUALIFYING CHILD" REQUIREMENTS.** (a) *Relationship test.* 1. An individual bears a relationship to the person if the individual is any of the following:

- a. A son or daughter of the person, or a descendant of either.
- b. A stepson or stepdaughter of the person.
- c. An eligible foster child of the person.

2. Subdivision 1 does not apply to any individual who is married as of the end of the person's taxable year unless the person is entitled to a deduction under s. 151 of the internal revenue code for that taxable year with respect to the individual or would be so entitled but for par. (2) or (4) of s. 152(e) of the internal revenue code.

3. For purposes of subd. 1.c, an eligible foster child is an individual not described in subd. 1.a or b who:

- a. The person cares for as the person's own child.
- b. Has the same principal place of abode as the person for the person's entire taxable year.

4. A child who is legally adopted or who is placed with a person by an authorized placement agency for adoption by

the person shall be treated as a child by blood.

(b) *Age requirements.* An individual meets the requirements of this paragraph if the individual meets any of the following conditions:

1. Has not attained the age of 19 as of the end of the calendar year in which the taxable year of the person begins.

2. Is a student as defined in s. 151(c)(4) of the internal revenue code who has not attained the age of 24 as of the end of the calendar year.

3. Is permanently and totally disabled as defined in s. 22(e)(3) of the internal revenue code at any time during the taxable year.

(c) *Identification requirements.* The requirements of this paragraph are met if, as part of the tax return on which the credit is claimed:

1. The person provides the name and age of each qualifying child.

2. In the case of a qualifying child who has attained the age of one year before the end of the person's taxable year, the person provides the taxpayer identification number of the qualifying child.

(d) *Abode must be in the United States.* The requirements of sub. (2)(b)2 and par. (a)3.b shall be met only if the principal place of abode is in the United States.

Note: The provisions of this section are effective for taxable years beginning on or after January 1, 1994, as a result of the enactment of 1993 Wis. Act 16, which created s. 71.07(9e)(ad), (ah), (ap) and (at), Stats. Prior to the enactment of 1993 Wis. Act 16, the Wisconsin earned income credit was based on a percentage of the federal basic earned income credit. □