

Wisconsin TAX BULLETIN



New Publications

See article on page 3.

Federal Laws Enacted in 1997 Also Apply for Wisconsin

For taxable years beginning in 1997, the Wisconsin Legislature has adopted the Internal Revenue Code (IRC) as amended through December 1996, **plus** IRC provisions of two federal laws enacted on August 5, 1997, which apply to 1997 and prior taxable years.

The changes made to the IRC by the federal Balanced Budget Act of 1997 (Public Law 105-33) and the Taxpayer Relief Act of 1997 (Public Law 105-34) that affect taxable years beginning before January 1, 1998, apply for Wisconsin franchise or income tax purposes at the same time as for federal purposes. (**Note:** Changes made by these federal Acts that first affect taxable years beginning on or after January 1, 1998, have not been adopted for Wisconsin purposes. Adoption of these changes will be considered during the Legislature's session in 1998.)

Two of the major federal IRC provisions enacted by Public Laws 105-33 and 105-34 which apply for Wisconsin are as follows:

- The \$250,000 exclusion (\$500,000 for married persons filing jointly) of gain from the sale of a personal residence after May 6, 1997.
- The exclusion (up to \$5,250) of certain educational assistance benefits received by an employee for courses that begin on or after July 1, 1997. ☐

Schedule WD Revisions Are Minor

There are no major changes to the Wisconsin Schedule WD for 1997. Because of changes in federal law, there has been concern by many tax practitioners that there would be major changes to the 1997 Schedule WD.

The 1997 federal Schedule D has 31 more lines than the 1996 version and may appear more complicated. However, because of the way in which the federal Internal Revenue Service incorporated the law changes for 1997, there is almost no impact on the Wisconsin Schedule WD.

Only minor changes in the instructions for Wisconsin Schedule WD were needed to reference different lines on the federal Schedule D. ☐

Senior Citizen Credit Limited for 1997

For taxable years beginning in 1997, the \$25 senior citizen credit on Wisconsin individual income tax returns, for persons age 65 or over, is phased out if Wisconsin adjusted gross income exceeds a certain "threshold" amount, as shown in the table below. For 1996 and prior taxable years, the \$25 senior citizen credit was available to persons age 65 or over, without regard to income.

The full \$25 credit is available to persons whose income does not exceed the threshold amount. The credit phases out over the next \$1,000 of income (the credit is reduced by 2.5% of the income above the threshold amount).

The 1997 Wisconsin individual income tax instruction booklets include a worksheet for doing this computation.

1997 Senior Citizen Credit	(Filing Status)		
	Single	Married Filing Jointly	Married Filing Separately
Full credit if income is:	\$30,000 or less	\$40,000 or less	\$20,000 or less
Credit phased out if income is between:	\$30,000 and \$31,000	\$40,000 and \$41,000	\$20,000 and \$21,000
No credit if income is:	\$31,000 or more	\$41,000 or more	\$21,000 or more

In This Issue

	Page		Page		Page
Articles —		3K-1s on Magnetic Media	4	Need a Speaker?	12
Federal Laws Apply	1	4X Eliminated for 1997	4	Taxpayer Assistance	12
Schedule WD Revisions Are		Exemption Certificate Revised . .	5	Publications Available	13
Minor	1	Combined Nonresident Returns . .	5	How to Obtain Copies	14
Senior Citizen Credit	1	Attaching Federal Return	5	How to Obtain Forms	15
Working Families Credit	2	Due Dates, Information Returns . .	6	Administrative Rules	16
Tax Computation Changed for		Wisconsin/Minnesota Seminars . .	6	Recently Adopted Rules	16
1NPR Filers	2	Question and Answer	6	Report on Litigation	18
Make Research Easier	3	Tips to Speed Refund	7	Tax Releases	25
<i>Bulletin</i> Index Available	3	Visit Internet Site!	7	Private Letter Rulings	27
Information or Inquiries?	3	Withholding Update Sent	8	Attachments —	
Sales Tax Report Mailed	3	1099-Gs, 1099-INTs Mailed	8	Notice for Employers	30
Focus on Publications: Exten-		Businessman Jailed	8	Flyer for Employes	31
sions, Tax to Another State	3	Avoid Processing Delays	9	November Tax Report	33
Premier Resort Area Tax	4	Avoid Errors on Returns	9	Withholding Tax Update	39
Estimated Payments for Entities		Common Mistakes, Estate Taxes . .	11	Order Blank	41
Who "Check-the-Box"	4				

Information About Working Families Tax Credit Sent to Employers

Information relating to the new Wisconsin Working Families Tax Credit, which is available for 1998, was included with the Form WT-7 mailing to employers in December 1997. This information includes the following:

1. A notice titled "New Tax Credit For Employes May Affect Withholding." This notice informs employers that certain employees (those who qualify for this new income tax credit) may elect to claim exemption from Wisconsin withholding for 1998. The notice also encourages employers to reproduce an enclosed flyer and distribute copies to employees who may qualify for the credit.
2. A flyer titled "Employes — New Tax Credit May Permit

You To Claim Exemption From Wisconsin Withholding Tax." The flyer contains information about the new Working Families Tax Credit. It includes a worksheet which an employee may use to determine if he or she qualifies to claim exemption from Wisconsin withholding for 1998, and a certificate to complete and give to the employer.

A copy of the notice for employers appears on page 30 of this Bulletin. A copy of the flyer which employees will receive appears on pages 31 and 32. □

Tax Computation Changed for Form 1NPR Filers

For taxable years beginning in 1997, nonresidents and part-year residents of Wisconsin are required to prorate the various income tax brackets used to compute tax. The brackets are to be multiplied by a fraction, the

numerator of which is their Wisconsin adjusted gross income and the denominator of which is their federal adjusted gross income.

As a result of this proration, persons filing Form 1NPR (income tax return for nonresidents and part-year residents) will no longer use a tax table to determine their tax. Instead, a tax computation worksheet is provided in the Form 1NPR instructions. □

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Make Your Research Easier

Are you looking for an easy way to locate reference material to research a Wisconsin tax question? The *Wisconsin Topical and Court Case Index* may be just what you need.

This two-part index will help you find reference material relating to income, franchise, withholding, sales/use, estate, and excise taxes.

The "Topical Index" portion lists by tax type, alphabetically by subject, references to Wisconsin statutes, administrative rules, tax releases, private letter rulings, publications, *Sales and Use Tax Reports*, Attorney General opinions, and *Wisconsin Tax Bulletin* articles.

The "Court Case Index" lists by tax type, alphabetically by subject, decisions of the Wisconsin Tax Appeals Commission, Circuit Court, Court of Appeals, and Wisconsin Supreme Court.

The *Wisconsin Topical and Court Case Index* is available by subscription for \$18 per year, plus sales tax. This includes a volume published in January and an addendum published in June. To order your copy, complete the order blank on page 41 of this Bulletin. ☐

Wisconsin Tax Bulletin Annual Index Available



Once each year the *Wisconsin Tax Bulletin* includes an index of materials that have appeared in past Bulletins. The latest index available appears in *Wisconsin Tax Bulletin* 101 (April 1997), pages 39 to 66, and includes information for issues 1 (October 1976) to 99 (October 1996). ☐

Information or Inquiries?

Listed below are telephone numbers to call if you wish to contact the Department of Revenue about any of the taxes administered by the Income, Sales, and Excise Tax Division. A comprehensive listing of telephone numbers and addresses appears in *Wisconsin Tax Bulletin* 101 (April 1997), pages 35 to 38.

Madison — Main Office Area Code (608)

Appeals	266-0185
Audit of Returns: Corporation, Individual, Homestead	266-2772
Beverage	266-6702
Cigarette, Tobacco Products	266-8970
Copies of Returns	267-1266
Corporation Franchise and Income	266-1143
Delinquent Taxes	266-7879
Electronic Filing	264-9959
Estimated Taxes	266-9940
Fiduciary, Estate	266-2772
Forms Request:	
Taxpayers	266-1961
Practitioners	267-2025
Fax-A-Form	261-6229
Homestead Credit	266-8641
Individual Income	266-2486
Motor Vehicle Fuel	266-3223
Refunds	266-8100
Sales, Use, Withholding	266-2776
TTY	267-1049

District Offices

Appleton	(920) 832-2727
Eau Claire	(715) 836-2811
Milwaukee:	
General	(414) 227-4000
Refunds	(414) 227-4907
TTY	(414) 227-4147

on a monthly basis. The *Report* was sent to other sales and use tax registrants (quarterly and annual filers) with their sales and use tax returns in late December.

The *Sales and Use Tax Report* includes explanations of recent sales and use tax law changes and notification of an increase in the amount subject to use tax for motor vehicles used by dealership employees. A copy of the *Report* appears on pages 33 to 38 of this Bulletin. ☐

Focus on Publications: Extensions, Tax Paid to Another State

What tax forms can have their filing deadline extended, and how is this accomplished? How can a taxpayer get credit for taxes paid to both Wisconsin and another state on the same income? The answers to these questions and more can be found in the Department of Revenue's two new publications, Publication 401, *Extensions of Time to File*, and Publication 125, *Credit for Tax Paid to Another State*.

Publication 401 contains information about how to obtain an extension of time to file a Wisconsin tax return or report, including the names and due dates of tax forms that need to be filed, extension periods available, and which extension form to use. It also includes information about federal extensions and how they apply for Wisconsin, obtaining "Wisconsin-only" extensions, and how extensions affect tax payments.

Publication 125 contains information about credit for tax paid to another state, including who may claim the credit, how to compute the credit, and how and when to claim the credit. It also includes information about the credit as it relates to

Sales and Use Tax Report Mailed

A special issue of the *Sales and Use Tax Report* (97-1, November 1997) was sent in November to sales and use tax registrants who file returns

changes made on the other state's tax return, and to tax-option (S) corporation shareholders and members of LLCs treated as partnerships.

Copies of these and other publications are available free of charge. See the article titled "Tax Publications Available" on page 13 of this Bulletin for a list of publications and how to obtain them. ☐

Municipalities Adopt Premier Resort Area Tax

The City of Bayfield and the Village of Lake Delton have enacted ordinances declaring themselves to be "premier resort areas" and imposing a 0.5% premier resort area sales tax. The tax is imposed on the gross receipts from the sale, lease, or rental of goods and services that are: (1) made within the premier resort area, (2) subject to the state sales tax under subch. III of Ch. 77, Wis. Stats., and (3) made by "tourism related retailers" as defined in sec. 77.994(1), Wis. Stats., as created by 1997 Wis. Act 27, effective October 14, 1997. The 0.5% premier resort area tax will take effect on April 1, 1998 in both of these municipalities.

For additional information about the premier resort area tax, see *Wisconsin Tax Bulletin 104* (November 1997), pages 31 to 34. ☐

Estimated Payments for Single-Owner Entities Who "Check-the-Box"

Special rules apply to certain estimated tax payments made for taxable years beginning in 1997. Under the federal "check-the-box" regulations relating to Internal Revenue Code (IRC) sec. 7701, a single-owner entity may elect to be disregarded as a separate entity for federal tax purposes. If the entity is disregarded for federal tax purposes, it is also disregarded as a separate

entity for Wisconsin franchise and income tax purposes. (See *Wisconsin Tax Bulletin 104*, November 1997, page 40.)

The sole owner is subject to the franchise or income tax on or measured by the entity's income and is required to make estimated tax payments based on the total income. If the sole owner of a single-owner entity has elected to be disregarded as a separate entity, the owner may claim any estimated tax payments made by the entity that is disregarded for taxable year 1997, on the owner's 1997 tax return.

To claim the estimated tax payments:

- Enter "IRC Sec. 7701 - See Attached Statement" on the estimated tax payments line of the owner's Wisconsin franchise or income tax return.
- Attach a statement to the front of the return indicating the name and federal employer ID number used for the payments made by the entity that is disregarded, and the amount of the estimated tax payments.
- Indicate in the statement whether the estimated payments were made by the entity as a partnership or a corporation.

(Note: For tax-option (S) corporations and qualified subchapter S subsidiaries, also see additional instructions under Line 12 (Estimated Tax Payments) in the 1997 Form 5S booklet.) ☐

Schedule 3K-1s — File on Magnetic Media?

Partnerships with 100 or more partners are encouraged to file their Wisconsin Schedule 3K-1s, *Partner's Share of Income, Deductions, etc.*, on magnetic media. The

types of magnetic media allowed include magnetic tape, cartridge, and diskette.

If your Schedule 3K-1s are prepared by software, ask your software company if they can provide these documents on magnetic media rather than on paper. Filing these documents on magnetic media will save both preparers and the department valuable resources, such as paper, shipping costs, and processing time. It's another way the department is streamlining your process of filing tax returns.

To get information and specifications for filing your Form 3K-1s magnetically, contact:

Kris Jager
Wisconsin Department of Revenue
Corporation Processing Unit
P.O. Box 8908
Madison, WI 53708-8908

Phone: (608) 266-0800

Email: KJager@mail.state.wi.us ☐

Use of Form 4X Eliminated for 1997

Beginning with 1997 corporate tax returns, Wisconsin Form 4X will no longer be used for amending a Form 4 or Form 5, *Wisconsin Corporation Franchise or Income Tax Return*. Instead, a "checkbox" is included on Forms 4 and 5, for taxpayers to designate that the form is an amended return. (Note: Form 4X will still be used for amending 1996 and prior years' Forms 4 and 5.)

Instructions are included in the Form 4 and Form 5 booklets, regarding the filing of an amended return. These instructions include worksheets to determine the correct amount of additional tax due or overpayment. ☐

Withholding Exemption Certificate Revised

The *Employer's Wisconsin Withholding Exemption Certificate*, Form WT-4, has been revised to accommodate information needed by the Department of Workforce Development (DWD) for their New Hire Reporting program.

An employer will need to mail or fax a copy of Form WT-4 to DWD for every newly-hired employee, unless the employer has elected one of the other acceptable methods of reporting to DWD, such as electronic filing. Employers will still need to mail copies of Form WT-4 to the Department of Revenue (DOR) when an employee claims more than ten exemptions, has claimed complete exemption from withholding and earns more than \$200 a week, or is believed to have claimed more exemptions than he or she is entitled to.

A copy of the revised Form WT-4 was mailed to each registered employer with Form WT-7, *Employer's Annual Reconciliation of Wisconsin Income Tax Withheld From Wages*, in December 1997. This mailing also included information from DWD regarding the New Hire Reporting program.

Additional copies of Form WT-4 can be obtained by calling DOR's forms order line at (608) 266-1961, by calling Fax-A-Form at (608) 261-6229 from a fax telephone, or by accessing the department's Web page at <http://www.dor.state.wi.us>. □

Two New Combined Nonresident Tax Returns

Wisconsin combined nonresident tax returns have been available for several years, Form 1CNP since 1987 and Form 1CNS since 1988. These forms enable partnerships to report the Wisconsin income of two

or more of their nonresident partners on one form (Form 1CNP) or tax-option (S) corporations to report the Wisconsin income of two or more of their nonresident shareholders on one form (Form 1CNS). For 1997, two additional Wisconsin combined nonresident tax returns are available: Form 1CNA, for nonresident members of a professional athletic team; and Form 1CND, for nonresident directors of a corporation.

A professional athletic team that has activities in Wisconsin and has two or more nonresident team members whose only Wisconsin income is compensation from the team may file a combined return, Form 1CNA, on behalf of those members. "Members" includes active and disabled players; and coaches, managers, trainers, and others who regularly travel with and perform services for the team.

A corporation that does business in Wisconsin and has two or more nonresident directors whose only Wisconsin income is directors' fees from the corporation may file a combined return, Form 1CND, on behalf of those directors.

The Form 1CNA or 1CND, which takes the place of the individual income tax return of each participating team member or director, must be filed on a calendar-year basis. Team members or directors may not participate in the combined return for 1997 in any of the following cases:

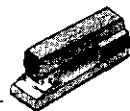
- The member or director files a tax return for 1997 on a fiscal-year basis.
- The member or director is a part-year or full-year resident of Wisconsin in 1997.
- The member or director derives 1997 taxable income or deductible loss from Wisconsin other than compensation from one profes-

sional athletic team or director's fees from one corporation.

- The member or director wishes to claim any deductions or tax credits for 1997.

Additional information about any of the four combined nonresident tax returns can be obtained by writing to Wisconsin Department of Revenue, Administration Technical Services, P.O. Box 8933, Madison, WI 53708-8933, or by calling (608) 266-5464. □

Attaching Copy of Federal Return



Individuals who file their Wisconsin income tax return on Form 1 or 1NPR are required to attach a copy of their federal income tax return to their Wisconsin return. Generally this will be a copy of federal Form 1040, 1040A, or 1040EZ. However, some Wisconsin filers are not required to file a federal return with the Internal Revenue Service (IRS), or they may use a Form 1040PC or TeleFile to report to the IRS.

Federal Form 1040PC or TeleFile Filers

Form 1040PC is the federal return prepared on a personal computer. The computer prints the return in a three-column "answer sheet" format. It prints line numbers and dollar amounts only for lines on which an entry is made. Federal Form 1040PC filers may attach a copy of the Form 1040PC to their Wisconsin Form 1 or 1NPR in lieu of federal Form 1040, 1040A, or 1040EZ.

Some taxpayers who file their Wisconsin return on Form 1 or 1NPR file their federal return by phone, using the federal TeleFile system. These taxpayers, who are not required to submit a paper tax return to the IRS, may attach a copy of

their federal TeleFile worksheet to their Wisconsin Form 1 or 1NPR in lieu of federal Form 1040, 1040A, or 1040EZ.

Taxpayers Not Required to File With the IRS

Some taxpayers who are required to file a Wisconsin income tax return are not required to file a federal income tax return with the IRS. For example, a single person under age 65, with gross income of at least \$5,200 but less than \$6,800 for 1997, must file a 1997 Wisconsin return but is not required to file a 1997 federal return.

In this situation, since the person would not have a copy of a federal return to attach to the Wisconsin return, a statement listing the sources and amounts of income must be attached to the Wisconsin Form 1 or 1NPR in lieu of a federal return.

Note: Because the Wisconsin tax forms refer to various lines on the federal return, a person may find it helpful to complete a federal income tax form to use as a reference when completing the Wisconsin return. This federal form, even though it will not be filed for federal tax purposes, may be attached to the Wisconsin return instead of the required statement of income. □

Don't Forget Due Dates for Information Returns

Various information returns must be filed with the Wisconsin Department of Revenue by January 31. Others are due March 15 or April 15.

Information returns due February 2, 1998 (January 31 is a Saturday) include Wisconsin Form 9b (or federal Form 1099-R, 1099-MISC, or W-2) to report retirement plan distributions and other nonwage compensation; Form W-2 to report

wages, tips, and other compensation; and Form W-2G to report gambling winnings.

Information returns due March 16, 1998 (March 15 is a Sunday), or April 15 by payers other than corporations, include Form 9b (or federal Form 1099-MISC) to report rents or royalties; and Form 8 to report capital stock transfers (by corporations only).

Additional information is available in Wisconsin Publication 117, *Guide to Wisconsin Information Returns*. See the article titled "Tax Publications Available" on page 13 of this Bulletin for information about how to obtain a copy of the publication. □

Wisconsin/Minnesota Sales Tax Seminars

The Wisconsin and Minnesota Departments of Revenue are presenting a series of joint sales and use tax seminars over the next several months, which will include information on differences between the two states' laws. The following seminars are open to the public without charge:

Date	Location
March 3, 1998	Hudson, WI <i>General Businesses</i>
March 3, 1998	Duluth, MN <i>Contractors</i>
April 21, 1998	LaCrosse, WI <i>General Businesses</i>
May 5, 1998	Duluth, MN <i>General Businesses</i>
May 5, 1998	Winona, MN <i>Contractors</i>

To register or for more information, call the Minnesota Department of Revenue at 1-800-888-6231. □

Question and Answer

Q How will the new "Wisconsin Works" family assistance program, which replaces AFDC, affect taxable income for income tax purposes, and homestead credit?

A Participants in the Wisconsin Works (or "W-2") assistance program can receive various types of payments from the program. Listed below are the types of Wisconsin Works payments, and how they affect taxable income and homestead credit.

- "Trial jobs" payments. These payments are taxable wages received from an employer, who is subsidized by the Wisconsin Works program. The payments are includable in both taxable income for income tax purposes and household income for homestead credit purposes, just as any other wages.
- "Community service job" payments and "transitional placement" payments. These payments are monthly amounts paid under the Wisconsin Works program. The payments are not taxable for income tax purposes but must be included in household income for homestead credit purposes. In addition, allowable property taxes or rent on the homestead credit claim must be reduced by one-twelfth for each month these payments were received during the year.
- "Custodial parent of infant" payments. These are also monthly payments, which terminate when the recipient's infant reaches age 12 weeks. The payments are not taxable for income tax purposes but must be included in household income for homestead credit purposes. However, these payments do not require the one-twelfth reduction