



Tax Releases

“Tax Releases” are designed to provide answers to the specific tax questions covered, based on the facts indicated. In situations where the facts vary from those in a tax release, the answers may not apply. Unless otherwise indicated, tax releases apply for all periods open to adjustment, and all references to section numbers are to the Wisconsin Statutes. (Caution: Tax releases reflect interpretations by the Wisconsin Department of Revenue, of laws enacted by the Wisconsin Legislature as of the date published in this Bulletin. Laws enacted after that date, new administrative rules, and court decisions may change the interpretations in a tax release.)

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INDIVIDUAL INCOME TAXES

1 Effect of the Subtraction for Medical and Long-Term Care Insurance on the Itemized Deduction Credit

Statutes: Sections 71.05(6)(b)19, 20, and 26 and 71.07(5)(a)15, Wis. Stats. (1999-00)

Background: Subject to certain limitations, Wisconsin law allows a subtraction from federal adjusted gross income when computing Wisconsin taxable income for the amount paid for medical care insurance and long-term care insurance.

If you are self-employed, you may subtract up to 100% of the amount you paid for medical care insurance during the taxable year (sec. 71.05(6)(b)19, Wis. Stats. (1999-00)). If you are an employee whose employer did not pay any amount toward your medical care insurance, you may subtract up to 50% of the amount you paid for medical care insurance (sec.71.05(6)(b)20, Wis. Stats. (1999-00)). You may also subtract up to 100% of the amount you paid

for long-term care insurance (sec. 71.05(6)(b)26, Wis. Stats. (1999-00)).

For federal tax purposes, you may include the cost of medical care insurance as a medical expense on Schedule A, *Itemized Deductions*. You may also include a portion of the amount paid for long-term care insurance as a medical expense on Schedule A. The total medical expenses (including medical care insurance and long-term care insurance) are then reduced by 7.5% of your federal adjusted gross income (AGI).

Wisconsin does not allow a deduction for federal itemized deductions. Instead, Wisconsin allows the itemized deduction credit. This credit is equal to 5% of the amount by which certain federal itemized deductions exceed the Wisconsin standard deduction. The federal itemized deduction for medical expenses is one of the deductions used in the computation of the Wisconsin itemized deduction credit.

In order to avoid a double benefit, sec. 71.07(5)(a)15, Wis. Stats. (1999-00), provides that the amounts claimed for the Wisconsin subtraction for medical care insurance and long-term care insurance cannot be used in the computation of the itemized deduction credit.

Facts and Question 1: You paid \$6,000 for medical care insurance during the year. You did not have any additional medical expenses. Your employer does not pay any part of your medical care insurance. You claim a Wisconsin subtraction for medical care insurance of \$3,000. Your federal itemized deduction for medical expenses is as follows:

Medical care insurance	\$6,000
Less 7.5% of federal AGI	<u>4,875</u>
Allowable deduction	\$1,125

What amount may you use for medical expenses when computing the Wisconsin itemized deduction credit?

Answer 1: You cannot use any portion of the \$1,125 federal deduction for medical expenses when computing the itemized deduction credit. The amount claimed for the Wisconsin subtraction for medical care insurance must be subtracted from the federal itemized deduction to determine the amount to use in computing the itemized deduction credit (\$1,125 – \$3,000 = \$0).

Facts and Question 2: You paid \$5,000 for medical care insurance during the year. In addition, you had other deductible medical expenses (for example, dental expenses) of \$4,000. Your employer does not pay any part of your medical care insurance. You claim a Wisconsin subtraction for medical care insurance of \$2,500. Your federal itemized deduction for medical expenses is as follows:

Medical care insurance	\$5,000
Other medical expenses	<u>4,000</u>
Total medical expenses	9,000
Less 7.5% of federal AGI	<u>5,250</u>
Allowable deduction	\$3,750

What amount may you use for medical expenses when computing the Wisconsin itemized deduction credit?

Answer 2: You may use \$1,667 of the medical expense deduction to compute the Wisconsin itemized deduction credit. Because the federal itemized deduction for medical expenses includes both medical care insurance and other medical expenses, you may allocate the deduction for medical expenses among the items included in the deduction. Four steps are needed to figure the amount of medical expenses that can be used when computing the Wisconsin itemized deduction credit.

Step 1 Use the following formula to allocate the deduction.

$$\frac{\text{Amount of medical care insurance}}{\text{Total medical expenses before 7.5\% of federal AGI limit}} \times \text{Medical expense deduction after reduction for 7.5\% of federal AGI} = \text{Portion of medical expense deduction due to medical care insurance}$$

Step 2 Subtract the amount determined in Step 1 from the medical expense deduction after reduction for 7.5% of federal AGI. This gives you the portion of the federal itemized deduction for medical expenses that is due to medical expenses other than medical care insurance.

Step 3 Subtract the amount of your Wisconsin subtraction for medical care insurance from the amount determined in Step 1. The remaining amount, if any, can be used for the credit.

Step 4 Add the amounts determined in Steps 2 and 3. This is the amount of the federal itemized deduction for medical expenses that can be used when computing the Wisconsin itemized deduction credit.

Using the four steps above, you figure the portion of the federal medical expense deduction that can be used when

computing the Wisconsin itemized deduction credit as follows:

Step 1 $\frac{\$5,000}{\$9,000} \times \$3,750 = \$2,083^*$

*portion of the federal itemized deduction for medical expenses due to medical care insurance

Step 2 $\$3,750 - \$2,083 = \$1,667$ (portion of the federal itemized deduction for medical expenses due to other than medical care insurance)

Step 3 $\$2,083 - \$2,500 = \$0$ (amount of the federal itemized deduction for medical care insurance that can be used for the itemized deduction credit)

Step 4 $\$1,667 + \$0 = \$1,667$ (amount of the federal itemized deduction for medical expenses that can be used when computing the Wisconsin itemized deduction credit)

Question 3: How do you determine the portion of the federal itemized deduction for long-term care insurance that can be used in the computation of the Wisconsin itemized deduction credit when the subtraction for long-term care insurance was claimed?

Answer 3: The portion of the federal itemized deduction for long-term care insurance that can be used when computing the Wisconsin itemized deduction credit is determined in the same manner as for the medical care insurance deduction. If your medical expenses consist of long-term care insurance as well as other medical expenses, use the four steps outlined in Answer 2 but substitute the long-term care insurance in place of medical care insurance.

Example 1: You paid \$6,000 for long-term care insurance in 2001. Based on your age, you may include \$2,290 of the long-term care insurance as a medical expense on federal Schedule A. Your federal itemized deduction for long-term care insurance is your only medical expense. Your federal itemized deduction for medical expenses is as follows:

Long-term care insurance	\$2,290
Less 7.5% of federal AGI	<u>2,175</u>
Allowable deduction	\$ 115

You claim a Wisconsin subtraction for long-term care insurance of \$6,000. You cannot use any portion of the \$115 federal deduction for medical expenses for the Wisconsin itemized deduction credit. The amount claimed for the Wisconsin subtraction for long-term care insurance must

be subtracted from the federal itemized deduction to determine the amount to use when computing the itemized deduction credit (\$115 – \$6,000 = \$0).

Example 2: You paid \$6,000 for long-term care insurance in 2001. Of this amount, you can include \$2,290 as a medical expense on Schedule A. You also had \$3,000 of other deductible medical expenses. Your federal itemized deduction for medical expenses is as follows:

Long-term care insurance	\$2,290
Other medical expenses	<u>3,000</u>
Total medical expenses	5,290
Less 7.5% of federal AGI	<u>3,150</u>
Allowable deduction	\$2,140

Figure the amount of the federal itemized deduction for medical expenses that can be used when computing the Wisconsin itemized deduction credit as follows:

Step 1 $\frac{\$2,290}{\$5,290} \times \$2,140 = \926^*

*portion of the federal itemized deduction for medical expenses due to long-term care insurance

Step 2 $\$2,140 - \$926 = \$1,214$ (portion of the federal itemized deduction for medical expenses due to other than long-term care insurance)

Step 3 $\$926 - \$6,000 = \$0$ (amount of the federal itemized deduction for long-term care insurance that can be used when computing the Wisconsin itemized deduction credit)

Step 4 $\$1,214 + \$0 = \$1,214$ (amount of federal itemized deduction for medical expenses that can be used when computing the Wisconsin itemized deduction credit)

Question 4: How do you determine the portion of the federal itemized deduction for medical expenses that can be used in the computation of the Wisconsin itemized deduction credit when subtractions were claimed for both medical care insurance and long-term care insurance?

Answer 4: The portion of the federal itemized deduction for medical expenses that can be used for the Wisconsin itemized deduction credit is determined using the same formulas in Question and Answer 2 and 3.

Example: You paid \$5,000 for long-term care insurance in 2001. You claim a subtraction for this amount on your Wisconsin income tax return. You also paid \$8,000 for medical care insurance. Your employer does not pay any part of your medical care insurance. You claimed \$4,000 of this amount as a subtraction for medical care insurance on your Wisconsin income tax return. Your federal itemized deduction for medical expenses is as follows:

Long-term care insurance	\$2,290
Medical care insurance	8,000
Dental expense	<u>2,000</u>
Total medical expenses	12,290
Less 7.5% of adjusted gross income	<u>4,500</u>
Itemized deduction for medical expenses	\$7,790

You may use \$2,338 of the federal medical expense deduction to compute the Wisconsin itemized deduction credit. This amount is determined as follows:

Step 1 $\frac{\$2,290}{\$12,290} \times \$7,790 = \$1,452^*$

*portion of federal itemized deduction for medical expenses due to long-term care insurance

$\frac{\$8,000}{\$12,290} \times \$7,790 = \$5,071^*$

*portion of federal itemized deduction for medical expenses due to medical care insurance

Step 2 $\$7,790 - (\$1,452 + \$5,071) = \$1,267$ (portion of the federal itemized deduction for medical expenses due to other than medical care insurance or long-term care insurance)

Step 3 $\$1,452 - \$5,000 = \$0$ (amount of the federal itemized deduction for long-term care insurance that can be used to compute the itemized deduction credit)

$\$5,071 - \$4,000 = \$1,071$ (amount of the federal itemized deduction for medical care insurance that can be used to compute the itemized deduction credit)

Step 4 $\$1,267 + \$0 + \$1,071 = \$2,338$ (amount of the federal itemized deduction for medical expenses that can be used to compute the itemized deduction credit) [↗](#)

SALES AND USE TAXES

2 Wheelchair and Scooter Lifts

Statutes: Section 77.54(22)(g), Wis. Stats. (1999-00)

Introduction: This tax release clarifies the tax treatment of wheelchair and scooter lifts, as provided in the tax release titled “Motor Vehicle Adaptive Equipment for Handicapped Persons,” that appeared in *Wisconsin Tax Bulletin* 70 (January 1991), page 25. The wheelchair lift discussed in *Wisconsin Tax Bulletin* 70 is the type that raises a handicapped person in a wheelchair into a motor vehicle and lowers the person in the wheelchair out of the motor vehicle. Because this type of wheelchair lift makes it possible for a handicapped person to enter or leave a motor vehicle, it qualifies for the exemption provided in sec. 77.54(22)(g), Wis. Stats. (1999-00).

Background: Section 77.54(22)(g), Wis. Stats. (1999-00), provides an exemption for the gross receipts from the sale of and the storage, use, or other consumption of:

“Adaptive equipment that makes it possible for handicapped persons to enter, operate or leave a vehicle, as defined in s. 27.01(7)(a)2., if that equipment is purchased by the individual who will use it, a person acting directly on behalf of that individual or a nonprofit organization.”

Facts and Question: Company ABC manufactures lifts for cars, trucks, and other motor vehicles that lift a person’s wheelchair or electric scooter into the person’s motor vehicle for storage. The lift does not raise the handicapped person into or out of the vehicle. For example, the lift is installed within the trunk of a motor vehicle. The electronically powered lift raises and turns the folded wheelchair horizontally at the touch of a button, brings the wheelchair above the trunk, and lowers the wheelchair into the trunk so that the trunk can be closed. With special adaptations, the lift can raise a wheelchair vertically into a mini-van.

Are sales of this lift by Company ABC to handicapped persons, persons acting directly on behalf of handicapped persons, or nonprofit organizations exempt from Wisconsin sales and use tax under sec. 77.54(22)(g), Wis. Stats. (1999-00)?

Answer: No. The exemption under sec. 77.54(22)(g), Wis. Stats. (1999-00), requires that the adaptive equipment be used to aid a person in entering, operating, or leaving a vehicle. Since this particular lift only aids in storing the wheelchair or scooter in the vehicle, and does not aid the handicapped person in entering, operating, or leaving the vehicle, the exemption does not apply. [✎](#)