

Shareholder's Instructions for 2012 Schedule 5K-1

General Instructions

Purpose of Schedule 5K-1 – Similar to federal Schedule K-1, the tax-option (S) corporation uses Schedule 5K-1 to report your pro rata share of the corporation's income, deductions, credits, etc., for Wisconsin purposes. Please keep it for your records. You must also file a copy of Schedule 5K-1 with your tax return if:

- You are claiming a tax credit passed through from the tax-option (S) corporation,
- You are filing an amended return based on an amended Schedule 5K-1, or
- The tax-option (S) corporation withheld tax on your share of the corporation's distributable income (applicable if you are not a Wisconsin resident).

Although the tax-option (S) corporation may have to pay a built-in gains tax, a franchise tax measured by certain federal, state, and municipal government interest income, and an economic development surcharge, you are liable for Wisconsin income tax on your share of the tax-option (S) corporation income, whether or not distributed, and you must include your share on your Wisconsin income tax return if a return is required.

Schedule 5K-1 shows each shareholder's share of the corporation's income, deductions, credits, etc., which have been summarized on Schedule 5K. Like Schedule 5K, Schedule 5K-1 requires an entry for the federal amount, adjustment, and amount determined under Wisconsin law of each applicable share item. In addition, Schedule 5K-1 for a nonresident or part-year resident shareholder requires a separate entry for the amount of each share item attributable to Wisconsin.

Inconsistent Treatment of Items – Generally, you must report tax-option (S) corporation items shown on your Schedule 5K-1 and any accompanying schedules the same way that the tax-option (S) corporation treated the items on its return. If your treatment is (or may be) inconsistent with the tax-option (S) corporation's treatment, you must include a statement with your return to identify and explain any inconsistency.

Errors – If you believe the tax-option (S) corporation has made an error on your Schedule 5K-1, notify the corporation and ask for a corrected Schedule 5K-1. Don't change any items on your copy. Be sure that the corporation sends a copy of the corrected Schedule 5K-1 to the Wisconsin Department of Revenue.

Elections – Generally, the tax-option (S) corporation decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use. However, certain elections are made by you separately on your tax return and not by the corporation. These include elections under Internal Revenue Code section 59(e)(2), relating to the deduction of certain qualified expenditures ratably over the period of time specified in that section.

Limitations on Losses, Deductions and Credits

CAUTION: The amount of loss and deduction that you may claim on your Wisconsin return may be less than the amount reported on Schedule 5K-1. It is the shareholder's responsibility to consider and apply any applicable limitations.

There are three separate potential limitations on the amount of tax-option (S) corporation losses that you may deduct on your return. These limitations are as follows:

1. The basis of your stock,
2. The at-risk limitations, and
3. The passive activity limitations.

1. Basis of Your Stock – You are responsible for maintaining records to show the computation of the basis of your stock in the corporation for Wisconsin income tax purposes. Schedule 5K-1 provides information to help you make the computation at the end of each corporate taxable year. The Wisconsin basis of your stock (generally, its cost) is adjusted as follows (this list is not all-inclusive):

Basis is first *increased* by:

- All income, including tax-exempt income, as computed under Wisconsin law, reported on Schedule 5K-1, column d. **Exception:** Basis is not increased by the corporation's excluded discharge of indebtedness income, generally applicable for discharges of indebtedness after October 11, 2001.

NOTE: You must report the taxable income on your Wisconsin income tax return (if you are required to file a return) for it to increase your basis.

Basis is then *decreased*, but not below zero, by:

- Property distributions, including cash, made by the corporation, reported on Schedule 5K-1, line 16d, that are not includable in income. (Distributions in excess of Wisconsin basis reported on Schedule 5K-1, line 16d, and dividend distributions reported on Schedule 5K-1, line 17c, don't decrease basis.)
- Nondeductible expenditures not due to timing differences, as computed under Wisconsin law from Schedule 5K-1, column (d).
- All deductible losses and deductions, as computed under Wisconsin law, reported on Schedule 5K-1, column (d).
- Your share of the supplement to the federal historic rehabilitation tax credit or early stage seed investment credit computed.

When figuring the Wisconsin basis in stock of a multistate corporation, use your share of the total company amounts, as computed under Wisconsin law from Schedule 5K-1, column (d), rather than the income, losses, and deductions attributable to Wisconsin activities from Schedule 5K-1, column (e).

You may elect to decrease your basis by deductible losses and deductions prior to decreasing your basis by nondeductible expenses. If you make this election, any nondeductible expenses that exceed the basis of your stock and debt owed to you by the corporation are treated as nondeductible expenses for the following taxable year. To make the election, file a statement with your timely filed original or amended return, as provided in the federal regulations. Once made, the election applies to the year for which it is made and all future taxable years for that corporation, unless the Department agrees to revoke your election.

2. At-Risk Limitations – For federal purposes, if you have a loss or other deduction from any activity carried on as a trade or business or for the production of income by the tax-option (S) corporation, and you have amounts in the activity for which you aren't at risk, you generally will have to figure the allowable loss. The at-risk rules generally limit the amount of loss (including loss on disposition of assets) and other deductions (such as the section 179 expense deduction) that you can claim to the amount you could actually lose in the activity. The at-risk rules also apply for Wisconsin purposes.

3. Passive Activity Limitations – Internal Revenue Code section 469 limits the deduction of certain losses. The rules apply to shareholders who are individuals, estates, trusts, closely held corporations, or personal service corporations and have a passive activity loss for the taxable year. Passive activities include trade or business activities in which you didn't materially participate and rental activities, as defined in the federal regulations. Rental real estate activities in which you materially participated are not passive activities if you meet certain eligibility requirements. The tax-option (S) corporation will identify separately each activity that may be passive to you. You must determine whether your losses are limited by the passive activity rules.

The passive activity loss limits also apply for Wisconsin purposes. However, if there are differences between your federal and Wisconsin income, you may have to recompute the amount of passive activity loss deductible for Wisconsin. There are three types of differences between federal and Wisconsin income:

- a. Schedule I adjustments,
- b. Differences resulting from making different elections for federal and Wisconsin purposes, and
- c. Modifications to federal adjusted gross income prescribed in section 71.05(6) to (12), (19), and (20), Wisconsin Statutes.

A Schedule I adjustment may arise if a provision of the Internal Revenue Code doesn't apply for Wisconsin or if a federal law change becomes effective at a different time for Wisconsin than for federal purposes. Modifications to federal adjusted gross income include the addition of state and local government bond interest income and the subtraction of the capital gain deduction.

For differences resulting from Schedule I adjustments or different elections, you must recompute the passive activity loss limits for Wisconsin. However, you may not recompute the loss limits for modifications. The tax-option (S) corporation should tell you the reason for any adjustment in column (c) so that you will know whether you must recompute the passive activity loss limits.

Specific Instructions

Schedule 5K-1, Columns a Through e

Column a – Pro rata share items. These item descriptions are substantially identical to the item descriptions on federal Schedule K-1. However, on the lines for other income, other deductions, alternative minimum tax (AMT) items, nondeductible expenses, distributions, and other information, enter the actual description instead of the applicable code from the federal Schedule K-1.

Column b – Federal Amount. The federal amount is the shareholder's pro rata share of the amount from Wisconsin Schedule 5K, column b, and generally should agree with the amount for that item reported on the shareholder's federal Schedule K-1.

Column c – Adjustment. The adjustment is the shareholder's pro rata share of the amount from Wisconsin Schedule 5K, column c. On a separate schedule you submit with Schedule 5K-1, explain the reason for any adjustment in column c. If the difference arises because a federal law change has not been adopted by Wisconsin, identify it as a "**Schedule I adjustment.**" Individual shareholders must account for this difference on Wisconsin Schedule I.

Column d – Amount Under Wisconsin Law. The amount under Wisconsin law is the shareholder's pro rata share of the amount from Wisconsin Schedule 5K, column d. This is the amount used in computing Wisconsin income by a full-year resident of Wisconsin. Full-year Wisconsin resident shareholders, part-year resident shareholders, and nonresident shareholders also use the information from column d to calculate the Wisconsin basis in the corporation's stock.

Column e – Wisconsin Source Amount. Fill in this column only for a nonresident or part-year Wisconsin resident. The Wisconsin source amount is the portion of the shareholder's amount in column d that is attributable to Wisconsin. If the tax-option (S) corporation is doing business in and outside Wisconsin, this generally will be the amount from column d

multiplied by the tax-option (S) corporation's apportionment percentage from item G.

CAUTION: Do not fill in column e for a shareholder who is a full-year resident of Wisconsin.

Shareholders That Are Full-Year Residents of Wisconsin

Individuals who are full-year residents of Wisconsin must report to Wisconsin all income or loss regardless of where it is earned or incurred, unless otherwise exempt (such as United States government interest).

Therefore, a tax-option (S) corporation that does business in and outside Wisconsin does not apportion a Wisconsin resident shareholder's share of its income, loss, and deductions between Wisconsin and elsewhere. The amount determined under Wisconsin law for each item is the shareholder's share, based on his or her percentage of stock ownership, of the amount on Schedule 5K, column d. Do not fill in column e.

Shareholders That Are Nonresidents

Individuals who are nonresidents of Wisconsin must report to Wisconsin all income or loss that is earned or incurred in Wisconsin.

If Corporation Does Business Only in Wisconsin. A nonresident shareholder's share of the adjustment and amount determined under Wisconsin law of each item is the shareholder's share, based on his or her percentage of stock ownership, of the amounts on Schedule 5K, columns c and d. Enter the amount from column d in column e.

If Corporation Does Business in and Outside Wisconsin. A nonresident shareholder's Wisconsin source amount in column e of each item is the shareholder's amount from column d that is attributable to Wisconsin based on apportionment or separate accounting, as appropriate.

If the corporation is a unitary, multistate corporation, compute the Wisconsin source amount of each share item by multiplying the amount in column d for that item by the apportionment percentage from item G.

If the corporation has nonapportionable income (loss) on Form 4N, line 14, compute the Wisconsin source amount in column e of any affected item by multiplying the amount of the nonapportionable share item from Schedule 5K, column d, that is attributed to Wisconsin on Form 4N by the nonresident shareholder's percentage of stock ownership.

If the corporation is a nonunitary, multistate corporation, compute the Wisconsin source amount in column e of each share item by multiplying the amount from Schedule 5K, column d, that is allocated to Wisconsin on a schedule similar to Form 4C by the nonresident shareholder's percentage of stock ownership.

Itemized Deduction Amounts. A shareholder may choose to treat items that are deductible on federal Schedule A in either of the following ways:

- As deductions that may be includable in the Wisconsin itemized deduction credit, or
- As modifications that are subtracted from federal adjusted gross income to arrive at Wisconsin adjusted gross income.

Show the amount that would be used in the Wisconsin itemized deduction credit in column d. Don't multiply this result by the Wisconsin apportionment percentage or allocate it in and outside Wisconsin using separate accounting, regardless of the shareholder's state of residence.

For items claimed as subtraction modifications, the Wisconsin amount is limited to the amount actually allowed as an itemized deduction for federal purposes. For a nonresident or part-year resident shareholder of a multistate corporation, the Wisconsin amount is further limited to the portion that is attributable to Wisconsin based on apportionment or separate accounting, as appropriate. Therefore, for a nonresident or part-year resident shareholder of a multistate corporation, enter the Wisconsin source amount in column e.

Shareholders That Are Part-Year Residents

Individuals who are part-year residents of Wisconsin must report to Wisconsin all income or loss, regardless of where it is earned or incurred, while they were residents of Wisconsin and all income or loss earned or incurred in Wisconsin while they were nonresidents of Wisconsin.

If Corporation Does Business Only in Wisconsin. A part-year resident shareholder's share of the adjustment and amount under Wisconsin law of each item is the shareholder's share, based on his or her percentage of stock ownership, of the adjustment and amount determined under Wisconsin law shown on Schedule 5K, columns c and d, respectively. Enter the amount from column d in column e.

If Corporation Does Business in and Outside Wisconsin. Compute a part-year resident shareholder's Wisconsin source amount in column e of each item in two parts: one for the portion of the corporation's taxable year that the shareholder was a resident of Wisconsin and another for the portion of the corporation's taxable year that the shareholder was a nonresident of Wisconsin.

For this purpose, the amount of any share item is determined on a daily basis. That is, every share item is allocated between the resident and nonresident status of the shareholder based on the number of days during the corporation's taxable year that the shareholder was a resident or nonresident of Wisconsin. The shareholder's share of an item for each period (resident or nonresident) is determined in the same manner as that of full-year residents and nonresidents, respectively.

Lines 1 through 12, 14, 15, and 17d – The entries on these lines show your share of the federal amount (column (b)), adjustment (column (c)), and amount reportable under Wisconsin law (column (d)) for each of the items. For nonresident and part-year resident shareholders, the entries also show your share of the amount attributed to Wisconsin (column (e)).

These amounts don't take into account limitations on losses or other items that may have to be adjusted because of the adjusted basis of your stock and debt in the corporation, the at-risk limitations, or the passive activity limitations.

If the amount under Wisconsin law for any share item on lines 1 through 12, 14, 15, and 17d differs from the federal amount, your Schedule 5K-1 will have an amount in column (c). You must account for this difference on your Wisconsin franchise or income tax return. How you account for the difference depends on the return you are filing, the share item, and the reason for the difference.

If the difference in column (c) arises because a provision of the Internal Revenue Code doesn't apply for Wisconsin or a federal law change becomes effective for Wisconsin at a different time, you must complete Wisconsin Schedule I (Schedule B for estates and trusts) before filling in your Wisconsin income tax return. If the difference results from the tax-option (S) corporation making different elections for federal and Wisconsin purposes, you must recompute the federal adjusted gross income that you report on your Wisconsin return.

If the difference is a modification allowed in computing Wisconsin adjusted gross income, the treatment depends on which share item is affected and the return you are filing:

Modifications on Lines 1, 2, 3, 5, 6, 10, 11, 12, 14, and 17d:

- If you are filing Form 1, account for any modification to one of these share items by combining the amount from Schedule 5K-1, column (c), with any other Wisconsin modification and entering the total on the appropriate line of Form 1.
- If you are filing Form 1NPR, include in column B on the appropriate line of Form 1NPR, along with any other Wisconsin income or loss, the Wisconsin amount from column (e) of any share item reported on one of these lines.
- If you are filing Form 2, account for any modification to one of these share items by entering the amount from Schedule 5K-1, column (c), on Form 2, Schedule A.

Interest Income Modifications on Lines 4, 16a, and 17a:

Interest income that is exempt from federal income taxes but taxable by Wisconsin, such as state and local government bond interest, is shown as an **addition** on line 4, column (c) and as a **subtraction** on line 16a, column (c).

- If you are filing Form 1, combine the interest income amount from Schedule 5K-1, column (c), with any other

interest modification and enter the total on the appropriate line of Form 1.

- If you are filing Form 1NPR, include in column B on Form 1NPR, along with any other Wisconsin interest income, the Wisconsin source amount of interest income from Schedule 5K-1, column (e).
- If you are filing Form 2, account for any modification by entering the amount from Schedule 5K-1, column (c), on Form 2, Schedule A.

Capital Gain Modifications on Lines 7 and 8:

Enter the Wisconsin amounts from column (d) (column (e) for nonresidents and part-year residents) of these share items on the appropriate lines of Wisconsin Schedule WD (Schedule WD (Form 2) for estates and trusts).

Section 1231 Gain/Loss Modifications on Line 9a:

See the instructions for Part II of Wisconsin Schedule T and recompute a federal Form 4797 as instructed.

Portion of the amount on Line 9a attributable to gains on sales of farm assets on Line 9b:

Enter portion of the net gain attributable to the sales of farm assets held more than one year. Neither include amounts treated as ordinary income for federal income tax purposes because of recapture of depreciation or for any other reason nor amounts treated as capital gain for federal income tax purposes from the sale or exchange of a lottery prize. "Farm assets" means livestock, farm equipment, farm real property, and farm depreciable property.

Itemized Deduction Modifications on Lines 12 and 17b:

Adjust the deduction items from federal Schedule A when figuring the Wisconsin itemized deduction credit (Form 1, Schedule 1, or Form 1NPR, Schedule 1). Increase or decrease, as appropriate, the amount from federal Schedule A by the amount on Schedule 5K-1, column (c).

Note: Rather than including the tax-option items deductible on federal Schedule A in the Wisconsin itemized deduction credit, you may treat these items as subtraction modifications to arrive at Wisconsin adjusted gross income. Your modification is limited to the amount actually deductible for federal purposes. If you are a nonresident of Wisconsin for any part of the corporation's taxable year, your modification is further limited to that portion of the deductible amount which is attributable to Wisconsin based on apportionment or separate accounting, as appropriate.

Line 13a through 13n. Credits--Compute the credits on lines 13a through 13n in the same manner for shareholders who are full-year, part-year, or nonresidents of Wisconsin. For part-year and nonresident shareholders, also enter the allowable credits in column e. For each credit, enter the shareholder's proportionate or specially allocated share of the amount on Schedule 5K. Enter the abbreviation of the credit you are

claiming next to the word "schedule" on line 13. The abbreviation for each credit is located in the upper left hand corner of the credit schedule and in parenthesis next to the description of the credit from the Schedule 5K instructions. Use a separate line for each credit you are claiming. For example, if you are claiming the enterprise zone jobs credit, enter "EC" next to the "Schedule" line. (**Note:** Only the early stage seed investment credit may be specially allocated. See the Schedule VC instructions for details.)

Line 13o. Credit for Tax Paid to Other States – Complete this line only for full-year Wisconsin resident shareholders and part-year Wisconsin resident shareholders. Enter zero for shareholders who are nonresidents of Wisconsin or corporations.

For a full-year resident, enter in column d the shareholder's proportionate share of the tax credits on Schedule 5K-1, line 13o. For a part-year resident, enter in column d the amount computed by multiplying the credit on Schedule 5K-1, line 13o, by the shareholder's percentage of stock ownership, multiplied by the ratio of days that the shareholder was a resident of Wisconsin during the tax-option (S) corporation's taxable year to the total days in the tax-option (S) corporation's taxable year. Enter the result in column e.

Line 13p. Wisconsin Tax Withheld – Enter the amount from line 13p, column (e), on the "Wisconsin income tax withheld" line of your Wisconsin income or franchise tax return. Unless you elect to be included in a composite return (Form 1CNS), you must file a copy of Schedule 5K-1 with your Wisconsin income or franchise tax return if you claim this credit. If the tax-option (S) corporation was required to file Form PW-1 to withhold tax on behalf of its nonresident shareholders, enter in column d and column e the tax withholding allocated to the shareholder.

CAUTION: Do not enter your share of pass-through entity withholding as an estimated tax payment on your Wisconsin return.

Line 15. Alternative Minimum Tax Items – Enter the net amount from column (c) of line 15 on Wisconsin Schedule MT, line 8. If you are a nonresident of Wisconsin for any part of the corporation's taxable year, enter the difference between column b and column e on Schedule MT, line 8.

Lines 16a through 16c. Tax-Exempt Interest and Nondeductible Expenses – Differences in the amount of income that is exempt for federal and Wisconsin purposes are shown on lines 16a and 16b, column (c). Increases or decreases in the amount of nondeductible expenses are shown on line 16c, column (c). Use the amount from column (d) when computing the Wisconsin basis of your stock.

Line 16d. Property Distributions – Reduce your Wisconsin basis in stock of the corporation by the Wisconsin distributions on line 16d, column (d). If these distributions exceed your Wisconsin basis in stock and you were a Wisconsin resi-

dent when you received the distributions, treat the excess as a Wisconsin gain from the sale or exchange of property. Enter any Wisconsin gain on the appropriate line of Wisconsin Schedule WD.

Line 16e. Repayment of Loans from Shareholders – If the repayments on line 16e are made on indebtedness with a reduced Wisconsin basis and you received the repayments while you were a Wisconsin resident, the repayments result in income to you to the extent the repayments are more than the adjusted Wisconsin basis of the loan.

If you are filing Form 1, enter the amount of Wisconsin income realized on Wisconsin Schedule WD, if the loan was a capital asset. If the loan wasn't a capital asset, enter the difference between federal income and Wisconsin income on Form 1, line 4 or 11, as appropriate.

If you are filing Form 1NPR, enter the amount of Wisconsin income realized on Wisconsin Schedule WD, if the loan was a capital asset, or in column B of the appropriate line on Form 1NPR, if the loan wasn't a capital asset.

■ **Lines 17a Through 17c. Investment Income/Expense and Dividend Distributions** – Enter the shareholder's proportionate share of the federal amount, adjustment, and amount determined under Wisconsin law from Schedule 5K for each of these items.

Line 17c. Dividend Distributions – You must report the amount from column (d) or (e), as appropriate, as dividend income if you were a Wisconsin resident on the date you received it. The federal amount of the dividend distribution should have been reported to you on Form 1099-DIV.

If you are filing Form 1, enter the amount from line 17c, column (c), on Form 1, line 4 or 11, as appropriate. If you are filing Form 1NPR and the dividend distribution is reportable to Wisconsin, enter the amount from line 17c, column (e), on Form 1NPR, line 3, column B, along with any other dividend income reportable to Wisconsin.

Line 17d. Other Items and Amounts – If applicable, the corporation has provided supplemental information or has listed in the space provided, your pro rata share of items not included on lines 1 through 17c. This listing should include the federal amount, adjustment, amount under Wisconsin law, and Wisconsin source amount, if applicable, for each item. Account for any other share items listed on line 17d as necessary to include the taxable or deductible amount of each item as computed under Wisconsin law in your Wisconsin income.

If interest income from United States government obligations is listed, you must make an adjustment on your Wisconsin return since this income is taxable for federal income tax purposes, but not for Wisconsin purposes. If you are filing Form 1, include the federal amount of this interest income on line 7. If you are filing Form 1NPR, don't include this interest income on Form 1NPR, line 2, column B.

Note: Tax-option (S) corporations whose Wisconsin shareholders may qualify for farmland preservation credit should provide a copy of the farmland property tax bill with the Schedule 5K-1 given to each Wisconsin shareholder. It isn't necessary for the tax-option (S) corporation to submit the property tax bill with the Schedules 5K-1 sent to the Department. Shareholders will compute their allowable credits based on their proportionate shares of the tax-option (S) corporation's property taxes. For additional information about farmland preservation credit, see the Wisconsin Schedule FC or FC-A instructions. If the tax-option (S) corporation is a member of one or more other pass-through entities, gross income includes the gross income attributable to those other pass-through entities.

Lines 18a and 18b. Related Entity Expenses – If the tax-option (S) corporation paid, accrued, or incurred management fees or interest, rental or intangible expenses to a related person or entity, the corporation completes lines 18a and 18b, as appropriate, to separately disclose the modifications it made to those items under the Wisconsin law requiring “addback” of related entity expenses. The amounts on lines 18a and 18b should already be included in column (c) corresponding to one or more other lines of Schedule 5K-1. Shareholders should verify that any amounts on lines 18a and 18b are included in column (c). If they are not, the shareholder should enter the modifications from lines 18a and 18b on the appropriate lines of Form 1, Form 1NPR, or Form 2, as applicable.

NOTE: You must make separate addition and subtraction modifications on your return for related entity interest and rental expenses, even if the modifications offset one another.

■ **Line 19. Income (Loss)** – For each of columns d and e, combine lines 1 through 10. From the result, subtract the sum of lines 11 through 12. Add or subtract, as appropriate, any income or deductions reported on line 17d that affect the computation of taxable income.

Line 20. Gross Income – Individuals combine the amount from column (d) or (e), as appropriate, with gross income from other sources (if any) that is reportable to Wisconsin to determine whether they must file a Wisconsin income tax return. See the instructions for Form 1 or Form 1NPR for information about the filing requirements.