

# INSTRUCTIONS FOR COMPLETING WISCONSIN SCHEDULE I – 1998

**INTRODUCTION** – Generally, the Wisconsin Statutes require that the computation of taxable income on the 1998 Wisconsin income tax return is to be based on the Internal Revenue Code enacted as of December 31, 1997. Changes to the Internal Revenue Code enacted after December 31, 1997 do not apply for Wisconsin income tax purposes.

Wisconsin law also provides that the following provision of federal law does not apply for Wisconsin purposes (even though this provision was enacted into federal law prior to December 31, 1997):

- The exclusion for 50% of the gain from the sale or exchange of qualified small business stock issued after August 10, 1993, and held for more than five years.

As a result, certain income and deduction items may be different for Wisconsin and federal purposes. Any difference must be adjusted on this schedule. A description of items requiring adjustment can be found under **ITEMS REQUIRING ADJUSTMENT**.

**WHO MUST FILE** – If the computation of your federal adjusted gross income or itemized deductions reflects any of the differences in Wisconsin and federal law for 1998, you must complete this schedule and attach it to your Wisconsin income tax return, Form 1 or Form 1NPR.

To the extent Schedule I adjustments in a prior year affect income or expense items in 1998 (e.g., ACRS depreciation was not allowed to be claimed on residential real property or certain farm property placed in service during 1986), you must also make adjustments on Schedule I for 1998.

It also may be necessary to prepare a 1998 Schedule I to adjust the amount of gain or loss reportable from sales of certain assets during 1998. See the instructions for lines 2 and 3 under **SPECIFIC INSTRUCTIONS**.

**PARTNERS, BENEFICIARIES OF ESTATES AND TRUSTS, AND SHAREHOLDERS OF TAX-OPTION (S) CORPORATIONS** – The income and deduction items computed on the Wisconsin returns of partnerships, estates and trusts, and tax-option (S) corporations may also be affected by the differences between Wisconsin and federal law for 1998. As a result, the distributive shares of these items which are reportable on the individual Wisconsin income tax returns of the respective partners, beneficiaries, and shareholders may differ for Wisconsin and federal income tax purposes. Such partners, beneficiaries, and shareholders should receive notification from the partnership, estate or trust, or tax-option (S) corporation of the amounts reportable for Wisconsin purposes. By comparing the amounts reportable for Wisconsin and federal purposes, the partner, beneficiary, or shareholder should determine the items which differ and make the appropriate adjustments.

## SPECIFIC INSTRUCTIONS

(Numbered to correspond with the line numbers on Schedule I)

### INSTRUCTIONS FOR PART I

1. Fill in your 1998 federal adjusted gross income from line 33 of your federal Form 1040.
- 2 & 3. If you sold or otherwise disposed of certain property during 1998, the gain or loss reportable from such sale may differ for Wisconsin and federal purposes due to Schedule I adjust-

ments made in the current year or a prior year. This would occur, for example, when different rates of depreciation or amortization were allowable for Wisconsin and federal purposes in 1975 or thereafter.

To properly report such gain or loss on your Wisconsin return, you must first remove all gain or loss included in your federal adjusted gross income. This is done by filling in line 2a or 2b and/or line 3a or 3b. Then fill in the revised gain or loss on line 2c and/or line 3c. Attach a revised federal Schedule D, Form 4684, or Form 4797 marked “Revised for Wisconsin purposes” to Form 1 or Form 1NPR.

Do not complete lines 2 and 3 if you did not make Schedule I adjustments in the current year or a prior year for the property you sold or otherwise disposed of during 1998.

5. Complete line 5 to make all other adjustments needed to convert 1998 federal adjusted gross income to the amount allowable for Wisconsin. See the listing under Section A of **ITEMS REQUIRING ADJUSTMENT**.

When an adjustment is made on line 2, 3, or 5, this may affect other amounts which must then also be adjusted. For example, the amount of social security includable in federal adjusted gross income may be affected when an adjustment is made to an income item. The adjustment to social security includable in federal adjusted gross income should be reported on line 5.

When completing line 5, if you are adjusting an expense item (e.g., depreciation or amounts claimed as Adjustments to Income on lines 23 through 31a of federal Form 1040), fill in the amounts in Col. I and Col. II as negative numbers. Put parentheses around the amounts to show negative numbers.

If you are adjusting an income item, fill in the amounts in Col. I and Col. II as positive numbers.

Complete Col. III as follows:

- If the amounts in Col. I and Col. II are positive numbers and the amount in Col. II is larger than the amount in Col. I, subtract Col. I from Col. II. Fill in the difference in Col. III.
- If the amounts in Col. I and Col. II are positive numbers and the amount in Col. I is larger than the amount in Col. II, subtract Col. II from Col. I. Fill in the difference as a negative number in Col. III.
- If the amounts in Col. I and Col. II are negative numbers and the amount in Col. II is larger than the amount in Col. I, subtract Col. I from Col. II. Fill in the difference as a negative number in Col. III. When figuring which amount is larger, treat both amounts as if they were positive numbers.
- If the amounts in Col. I and Col. II are negative numbers and the amount in Col. I is larger than the amount in Col. II, subtract Col. II from Col. I. Fill in the difference as a positive number in Col. III. When figuring which amount is larger, treat both amounts as if they were positive numbers.

6. The amount on line 6 is your recomputed federal adjusted gross income based on the Internal Revenue Code in effect for Wisconsin for 1998. This amount is the starting point for determining Wisconsin taxable income on Form 1.

## INSTRUCTIONS FOR PART II

7. Whenever federal adjusted gross income has been increased or decreased in Part I of Schedule I, itemized deductions which are computed using federal adjusted gross income (for example, medical expenses, charitable contributions, and job and miscellaneous expenses subject to the 2% of federal adjusted gross income limitation) may require adjustment. The deductible amounts of any such items used to compute the Wisconsin itemized deduction credit must be determined by using the federal adjusted gross income computed on line 6 of Part I.

See the listing under Section B of ITEMS REQUIRING ADJUSTMENT for other itemized deductions that require adjustment.

### ITEMS REQUIRING ADJUSTMENT

Following are brief explanations of differences between federal and Wisconsin law which were known at the time this form was printed (November 15, 1998).

All of these differences result from the federal Internal Revenue Service Restructuring and Reform Act of 1998 (IRSRRRA) which was enacted into law on July 22, 1998, the Surface Transportation Revenue Act of 1998 (STRA) which was enacted into law on June 9, 1998, and the Omnibus Budget Appropriations Act of 1998 which was enacted into law on October 21, 1998.

The "Federal" explanation indicates how an item is to be treated for federal income tax purposes as of December 31, 1998. The "Wisconsin" explanation indicates how the item is to be treated for Wisconsin purposes under the Internal Revenue Code enacted as of December 31, 1997.

If you need additional information regarding these items, contact any Wisconsin Department of Revenue office.

#### A. ITEMS AFFECTING THE COMPUTATION OF FEDERAL ADJUSTED GROSS INCOME

##### 1. Small Business Stock

- (a) Federal – An exclusion is allowed for 50% of the gain from the sale or exchange of qualified small business stock issued after August 10, 1993, and held for more than five years.
- (b) Wisconsin – Gain from the sale or exchange of qualified small business stock is included in gross income.

##### 2. Meals Served for Convenience of Employer

- (a) Federal – If more than one-half of the employees are furnished meals at the employer's location for the convenience of the employer, all such meals are treated as furnished for the convenience of the employer. The value of all such meals is excludable from the employees' income and fully deductible by the employer. (IRSRRRA, sec. 5002)
- (b) Wisconsin – Meals furnished by the employer that qualify as a de minimis fringe benefit are excludable from the employee's income and are fully deductible by the employer.

##### 3. Rollover of Hardship Distributions to an IRA

- (a) Federal – Hardship distributions may not be rolled over to an IRA. (IRSRRRA, sec. 6005(c)(2)(A) and (B)) Note: This provision is effective for distributions made after December 31, 1998, and only affects 1998 returns filed on a fiscal-year basis.
- (b) Wisconsin – Hardship distributions are an eligible rollover distribution and may be rolled over to an IRA.

#### 4. Deduction for Accrued Vacation or Severance Pay

- (a) Federal – An employer may deduct accrued vacation or severance pay in a particular year only if the vacation or severance pay is actually received by the employee on or before 2 1/2 months after the end of the tax year. (IRSRRRA sec. 7001)
- (b) Wisconsin – Accrued vacation or severance pay is deductible by an employer for the tax year during which earned and not treated as deferred compensation, provided that it is paid or considered paid (for example, as the result of the employer obtaining an irrevocable letter of credit for its accrued liabilities) to employees on or before 2 1/2 months after the end of the tax year.

#### 5. Mark-to-Market Treatment of Customer Receivables

- (a) Federal – For purposes of the mark-to-market accounting rules, the definition of a "security" excludes any non-financial customer paper. (IRSRRRA, sec. 7003(a))
- (b) Wisconsin – The treatment of nonfinancial customer paper is determined under the provisions of the Internal Revenue Code as amended to December 31, 1997.

#### 6. Qualified Transportation Fringe Benefits

- (a) Federal – Employers who provide any qualified transportation fringe benefits for their employees may offer employees a choice between cash and one or more qualified transportation benefits. The amount of cash offered is includable in the employee's gross income only to the extent that the employee chooses the cash option. (STRA, sec. 9010(a))
- (b) Wisconsin – Employers may only offer employees a choice between cash and qualified parking without causing the employee to lose the exclusion.

#### 7. Tax Treatment of Cash Options for Qualified Prizes

- (a) Federal – A qualified prize option is disregarded in determining the taxable year for which any portion of a qualified prize is includable in gross income. A qualified prize option is an option which entitles an individual to receive a single cash payment in lieu of receiving a qualified prize in installments over a period of ten years or more, and is exercisable not later than 60 days after the individual becomes entitled to the qualified prize. This provision applies to any prize to which a person first becomes entitled after October 21, 1998. (OBAA, Title I, sec. 5301)
- (b) Wisconsin – The treatment of a prize option is determined under the provisions of the Internal Revenue Code as amended to December 31, 1997.

#### B. ITEMS AFFECTING THE COMPUTATION OF ITEMIZED DEDUCTIONS

##### 1. Contributions of Stock to Private Foundations

- (a) Federal – A deduction is allowed for the full fair market value of qualified appreciated stock given to certain private foundations. (OBAA, Title I, sec. 1004)
- (b) Wisconsin – For contributions of appreciated stock made after June 30, 1998, a deduction is allowed for the fair market value of the stock reduced by any amount that would have been long-term capital gain if the stock had been sold for its fair market value.