

# INSTRUCTIONS FOR COMPLETING WISCONSIN SCHEDULE I – 2003

**INTRODUCTION** – Generally, the Wisconsin Statutes require that the computation of taxable income on the 2003 Wisconsin income tax return is to be based on the Internal Revenue Code enacted as of December 31, 2002. Changes made to the Internal Revenue Code enacted after December 31, 2002, do not apply for Wisconsin income tax purposes.

Wisconsin law also provides that the following provisions of federal law do not apply for Wisconsin purposes (even though these provisions were enacted into federal law prior to December 31, 2002):

- Exclusion for small business stock
- Treatment of extraterritorial income
- Expensing of environmental remediation costs
- Deduction for tuition and fees
- Thirty percent bonus depreciation
- Treatment of qualified leasehold improvement property.
- Installment method for accrual basis taxpayers.

(See items 1 through 8 of Part A under Items Requiring Adjustment.)

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 2003, 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 2003 (for example, the special 30% depreciation allowance was not allowed to be claimed on property placed in service after September 10, 2001), you must also make adjustments on Schedule I for 2003.

It also may be necessary to prepare a 2003 Schedule I to adjust the amount of gain or loss reportable from sales of certain assets during 2003. 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 2003. 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 2003 federal adjusted gross income from line 34 of your federal Form 1040 (line 21 of Form 1040A if you claimed the tuition and fees deduction on that form).
- 2 & 3. If you sold or otherwise disposed of certain property during 2003, the gain or loss reportable from such sale may differ for Wisconsin and federal purposes due to Schedule I adjustments 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 2003.

5. Complete line 5 to make all other adjustments needed to convert 2003 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 (for example, depreciation or amounts claimed as Adjustments to Income on lines 23 through 32a 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 (or one number is a positive number and the other number is zero) 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 (or one number is a positive number and the other number is zero) 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 (or one number is a negative number and the other number is zero) 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. Treat both amounts as if they were positive numbers when figuring which amount is larger and when subtracting the amounts in Col. I and Col. II.
- If the amounts in Col. I and Col. II are negative numbers (or one number is a negative number and the

other number is zero) 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. Treat both amounts as if they were positive numbers when figuring which amount is larger and when subtracting the amounts in Col. I and Col. II.

6. The amount on line 6 is your recomputed federal adjusted gross income based on the Internal Revenue Code in effect for Wisconsin for 2003. 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 and charitable contributions) 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 (December 3, 2003).

The "Federal" explanation indicates how an item is to be treated for federal income tax purposes as of December 31, 2003. The "Wisconsin" explanation indicates how the item is to be treated for Wisconsin purposes.

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

**CAUTION** At the time these instructions were printed, Congress was considering further legislation, and that further legislation could affect the taxable year 2003. If federal law changes are enacted which affect 2003 tax returns, you may obtain information on the Wisconsin treatment of such changes from 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. Treatment of Extraterritorial Income**

- (a) Federal – An exclusion from gross income is allowed for extraterritorial income that is qualifying foreign trade income. (Public Law 106-519)
- (b) Wisconsin – The treatment of extraterritorial income is determined under the provisions of the Internal Revenue Code as amended to December 31, 1999.

### **3. Expensing of Environmental Remediation Costs**

- (a) Federal – The expensing of environmental remediation costs is no longer limited to targeted areas. (Public Law 106-554)
- (b) Wisconsin – The expensing of environmental remediation costs is limited to qualified expenses at a qualified contaminated site within a targeted area.

### **4. Special Depreciation Allowance for New York Liberty Zone Property**

- (a) Federal – An additional first-year depreciation deduction is allowed equal to 30% of the adjusted basis of qualified New York Liberty Zone property. (Public Law 107-147)
- (b) Wisconsin – The additional 30% first-year depreciation deduction for qualified New York Liberty Zone property does not apply. Depreciation on such property must be computed under the provisions of the Internal Revenue Code in effect on December 31, 2000.

### **5. Treatment of Qualified Leasehold Improvement Property**

- (a) Federal – For purposes of the depreciation rules, 5-year property includes qualified New York Liberty Zone leasehold improvement property. (Public Law 107-147)

- (b) Wisconsin – Depreciation on leasehold improvement property must be computed under the provisions of the Internal Revenue Code in effect on December 31, 2000.

### **6. Deduction for Tuition and Fees**

- (a) Federal – A deduction is allowed for up to \$3,000 of qualified tuition and fees paid during the taxable year in connection with enrollment at an institute of higher education. (Public Law 107-16)
- (b) Wisconsin – The federal deduction for up to \$3,000 of qualified tuition and fees does not apply for Wisconsin. (**Note** Although the federal deduction for tuition and fees cannot be claimed for Wisconsin, you may qualify for a tuition deduction provided by Wisconsin law. If you claimed the federal tuition and fees deduction, you must complete Schedule I to remove the federal deduction. See page 11 of the Form 1 instructions (page 16 of Form 1NPR instructions) for more information on the Wisconsin deduction for tuition paid.)

### **7. Installment Method for Accrual Basis Taxpayers**

- (a) Federal – Accrual basis taxpayers may report income from an installment sale under the installment method. (Public Law 106-573)
- (b) Wisconsin – Accrual basis taxpayers cannot use the installment method for reporting sales and other dispositions. Gain from the sale of property must be recognized in the year of the sale, rather than when payments are received.

### **8. Thirty Percent Bonus Depreciation**

- (a) Federal – An additional first-year depreciation deduction equal to 30% of the adjusted basis of qualified property is allowed. In the case of the limitation on depreciation for luxury automobiles, the amount of depreciation allowable in the first year is increased by \$4,600. (Public Law 107-147)
- (b) Wisconsin – The bonus depreciation allowance for certain property does not apply. Depreciation must be computed under the provisions of the Internal Revenue Code in effect on December 31, 2000.

## **9. Fifty Percent Bonus Depreciation**

- (a) Federal – Fifty percent (rather than 30%) bonus depreciation is allowed for certain property placed in service after May 5, 2003 and before January 1, 2005. In the case of luxury automobiles, the amount of depreciation allowable in the first year is increased to \$7,650. (Public Law 108-27)
- (b) Wisconsin – The bonus depreciation provisions do not apply. Depreciation must be computed under the provisions of the Internal Revenue Code in effect on December 31, 2000.

## **10. Increase in Section 179 Expensing**

- (a) Federal – For taxable years beginning in 2003, the amount that may be expensed under sec. 179, Internal Revenue Code, is increased to \$100,000. The phase-out threshold is increased from \$200,000 to \$400,000. Off-the-shelf computer software is considered qualifying property. (Public Law 108-27)
- (b) Wisconsin – The amount that may be expensed under sec. 179 is determined under the provisions of the Internal Revenue Code in effect on December 31, 2002.

## **11. Death Gratuities Payable with Respect to Deceased Members of the Armed Forces**

- (a) Federal – The \$6,000 increase in the military death gratuity payment is exempt from federal income tax. (Public Law 108-121)
- (b) Wisconsin – The treatment of the death gratuity adjustment is determined under the provisions of the Internal Revenue Code in effect on December 31, 2002.

## **12. Qualified Military Base Realignment and Closure**

- (a) Federal – Qualified military base realignment and closure fringe benefit payments made after November 11, 2003, are excluded from gross income. (Public Law 108-121)
- (b) Wisconsin – The treatment of qualified military base realignment and closure fringe benefit payments is determined under the provisions of the Internal Revenue Code in effect on December 31, 2002.

## **13. Treatment of Dependent Care Assistance Programs**

- (a) Federal – Dependent care assistance provided under a dependent care assistance program for a member of the uniformed services by reason of such member's status or service is an income-excludable qualified military benefit. (Public Law 108-121)
- (b) Wisconsin – The treatment of dependent care assistance provided for a member of the uniformed services is determined under the provisions of the Internal Revenue Code in effect on December 31, 2002.

## **14. Overnight Travel Expenses of National Guard and Reserve Members**

- (a) Federal – National Guard and Reserve members who must travel more than 100 miles away from home and stay overnight as part of their official duties are deemed to be away from home in the pursuit of a trade or business. A deduction from gross income is allowed for their unreimbursed overnight travel, meals, and lodging expenses. (Public Law 108-121).
- (b) Wisconsin – A deduction is not allowed for unreimbursed overnight travel, meals, and lodging expenses of National Guard and Reserve members.

## **15. Death Benefits Payable to Astronauts**

- (a) Federal – The exclusion from gross income for amounts paid by an employer by reason of the death of an employee who is a terrorist victim applies to any astronaut whose death occurs in the line of duty. (Public Law 108-121)
- (b) Wisconsin – The exclusion from gross income for amounts paid by an employer by reason of the death of an astronaut does not apply.

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

### **1. Investment Interest**

- (a) Federal – Ordinary dividends taxed as net capital gain cannot be taken into account as investment income when determining the allowable deduction for investment interest expense. (Public Law 108-27)
- (b) Wisconsin – All ordinary dividends (except Alaska Permanent Fund dividends) are used in determining the allowable deduction for investment interest expense.