

# Wisconsin Partnership Return Form 3 Instructions

## New for 2009:

### Related Entity Expenses

Taxpayers must make modifications to federal income for management fees or interest, rental or intangible expenses paid, accrued, or incurred to a related entity. See pages 3 and 11 for details of how this new law affects Form 3 filers.

### Estimated Quarterly Withholding Tax Payments

Pass-through entities are required to make quarterly payments of estimated withholding tax on nonresident members' share of income attributable to Wisconsin. See page 5 for details.

## Go Electronic!

Fast • Accurate • Secure

File Form 3 through the Federal/State E-Filing Program. With approved third party software, you can file Form 3 along with other Wisconsin and federal returns in a single filing. Or, you may use Federal/State E-Filing to file Form 3 separately. See *Filing Methods* on page 3 for details.

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- Obtain tax forms and instructions.
- Get answers to frequently asked questions (FAQs).
- Find out which third-party software you can use to file Form 3 electronically.
- Register for electronic funds transfer.
- Check out the *Wisconsin Tax Bulletin* quarterly newsletter.
- Read Department of Revenue publications which explain specific topics in detail.
- Register to receive e-mail news about new laws and procedures.
- Determine which e-mail address or telephone number to use to contact the Department about a specific question.

## Remember to file these with Form 3:

- Schedule 3K-1 for each partner
- A copy of your federal return, including supporting schedules
- Any extension of time to file
- Any other required forms or schedules, such as Schedule RT or Schedule CR



*Do not staple attachments to your return. File electronically or use paper clips to submit these items.*

## Don't forget about use tax!

The partnership may owe use tax if it purchased tangible personal property or certain services for storage, use, or consumption in Wisconsin without paying a state sales or use tax. See page 5 for details.

# Purpose of Form 3

Partnerships, including limited liability companies (LLCs) treated as partnerships, use Form 3 to report their income, gains, losses, deductions, and credits. In addition to filing Form 3, partnerships may also be required to file Form 3S to compute their recycling surcharge.

## Table of Contents

<b>General Instructions for Form 3</b> .....1	“Other Items and Amounts” Reportable on
Who Must File Form 3.....1	Schedule 3K, Item 20c..... 13
Definitions.....2	Schedule 3K, Lines 21 Through 23..... 14
When and Where to File.....2	Submitting Your Form 3.....14
Period Covered by Return and Accounting Methods3	<b>Specific Instructions for Schedule 3K-1</b> .....15
Disclosure of Related Entity Expenses and	Federal Schedules K-1..... 15
Reportable Transactions.....3	Information About the Partnership..... 15
Internal Revenue Service Adjustments and Amended	Information About the Partner..... 15
Returns.....4	Schedule 3K-1, Columns (a) Through (e)..... 16
Recycling Surcharge.....4	Partners That Are Corporations or Other
Partnerships Having Nonresident Partners.....4	Partnerships..... 16
Schedules 3K-1 and Information Returns.....5	Partners That Are Full-Year Wisconsin Resident
Wisconsin Use Tax.....5	Individuals, Estates, and Trusts..... 16
Obtaining Forms and Assistance.....6	Partners That Are Nonresident Individuals, Estates,
<b>Conformity With Internal Revenue Code and</b>	and Trusts..... 16
<b>Exceptions</b> .....6	Partners That Are Part-Year Wisconsin Resident
Amendments to Internal Revenue Code After	Individuals, Estates, and Trusts..... 18
December 31, 2008.....6	Schedule 3K-1, Line 10b..... 18
Depreciation and Section 179 Expensing.....6	Credits Reportable on Schedule 3K-1, Line 15 .... 18
Other Exceptions to Internal Revenue Code.....7	Schedule 3K-1, Lines 18 through 22..... 18
How to Report Differences.....8	Partner’s Share of Apportionment Factors..... 19
<b>Specific Instructions for Form 3</b> .....9	<b>Example of Schedule 3K-1 for Individual</b>
Items A Through P.....9	<b>Partners</b> .....20
Schedule 3K, Columns b Through d..... 10	<b>Determining the Wisconsin Income of</b>
Adjustments Reportable on Schedule 3K,	<b>Multistate Partnerships</b> .....21
Column c..... 10	Who Must Use Apportionment..... 21
Modifications Prescribed in Wisconsin Law..... 11	What Is the Apportionment Percentage..... 21
Credits Reportable on Schedule 3K, Line 15..... 12	What Is Nonapportionable Income..... 21
	Separate Accounting..... 21

## General Instructions for Form 3

### Who Must File Form 3

Every partnership and limited liability company treated as a partnership with income from Wisconsin sources, regardless of the amount, must file Form 3. For example, a partnership must file a return if it has income from:

- Business transacted in Wisconsin,
- Personal or professional services performed in Wisconsin,
- Real or tangible personal property located in Wisconsin,

- A covenant not to compete, if that covenant was based on a Wisconsin-based activity, or
- Wisconsin lottery prizes, including income from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in Wisconsin.

The Department of Revenue may also require a partnership with Wisconsin resident partners to file a Wisconsin partnership return even though it has no Wisconsin business or income. For example, an out-of-state partnership that does no business in Wisconsin, has no property in Wisconsin,

and has no income from Wisconsin sources may be requested to file a partnership return to enable the Department of Revenue to compute a Wisconsin resident partner's Wisconsin tax liability.

**Exceptions:** The following partnerships and limited liability companies are not required to file Form 3:

- A syndicate, pool, joint venture, or similar organization that isn't required to file a federal partnership return because it has elected under Internal Revenue Code (IRC) section 761(a) not to be treated as a partnership for federal income tax purposes may make a similar election for Wisconsin purposes. To make the election, attach a copy of the federal election statement to the Form 3 filed with the Department of Revenue for the year of election.
- If the Wisconsin election is made, the organization generally won't have to file Form 3 except for the year of election. However, the Department of Revenue may require the organization to file a return so that a partner's Wisconsin tax liability may be computed.
- Publicly traded partnerships treated as corporations under IRC section 7704 must file Wisconsin Form 4 or 5 instead of Form 3.
- Limited liability companies treated as corporations for federal income tax purposes must file Wisconsin Form 4 or 5 instead of Form 3.
- Single member limited liability companies that are disregarded as separate entities under IRC section 7701 are disregarded as separate entities for Wisconsin purposes. The member is required to include the income and expenses of the limited liability company on the member's return.
- Common trust funds are treated as fiduciaries under Wisconsin law and must file Wisconsin Form 2 instead of Form 3.

## Definitions

**Partnership.** A partnership is an association of two or more persons to carry on as co-owners a trade or business for profit. The term "partnership" includes a limited partnership, registered limited liability partnership, syndicate, group, pool, joint venture, or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on, and is not, within the meaning of the Wisconsin income tax law, a corporation, trust, estate, or sole proprietorship.

**Limited Partnership.** A limited partnership is formed under a state limited partnership law and composed of at least one general partner and one or more limited partners.

**Registered Limited Liability Partnership.** A registered limited liability partnership (LLP) is formed under Wisconsin limited liability partnership law and registered under sec. 178.40, Wis. Stats. Generally, a partner in an LLP isn't personally liable for the debts of the LLP or any other partner.

**Foreign Registered Limited Liability Partnership.** A foreign limited liability partnership is formed pursuant to an agreement governed by the laws of a state other than Wisconsin or another country and registered under the laws of that jurisdiction.

**General Partner.** A general partner is a partner who is personally liable for partnership debts.

**Limited Partner.** A limited partner is a partner whose personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership. **Note:** A partner who has the authority to act for or bind the partnership in any way or to participate in any way in the management or business affairs of the partnership, or both, is deemed to be a general partner, even if the person is defined as a limited partner in the partnership agreement.

**Limited Liability Company.** A limited liability company (LLC) is an entity formed under state law by filing articles of organization as an LLC. Unlike a partnership, none of the members of an LLC are personally liable for its debts. However, members or other persons may be personally liable for the payment of taxes based on their responsibilities or actions.

An LLC may be classified for federal income tax purposes as a partnership, a corporation, or as an entity disregarded as a separate entity from its owner. If an LLC is classified as a partnership for federal income tax purposes, it is treated as a partnership for Wisconsin purposes. An LLC classified as a corporation for federal income tax purposes is treated as a corporation by Wisconsin. An LLC disregarded as a separate entity for federal income tax purposes is also disregarded as a separate entity for Wisconsin income tax purposes. For more information, obtain Wisconsin Publication 119, *Limited Liability Companies (LLCs)*.

## When and Where to File

A partnership must file its return with the Wisconsin Department of Revenue by the 15th day of the 4th month following the close of its taxable year.

**Extensions.** Any extension allowed by the Internal Revenue Service (IRS) for filing the federal return automatically extends the Wisconsin due date, if you file a copy of the federal extension with your Wisconsin return. If you aren't requesting a federal extension, but you need additional time to file your Wisconsin return, you may obtain

an extension available to partnerships under federal law. To receive the Wisconsin extension, include with your Wisconsin return a completed copy of the appropriate federal extension form or a statement explaining which federal extension provision you are using.

For partnership returns due on or after **January 1, 2009**, the IRS allows an extension period of five months. This same extension period applies to Wisconsin partnership returns.

**Filing Methods.** File electronically through the Federal/State E-Filing Program.

Paper filing is also permitted. If you choose to file Form 3 on paper, follow these mailing instructions carefully:

- **Do not fasten, staple or bind the pages of your return.** Use paper clips instead.
- If you are submitting multiple returns, separate them with **colored separator sheets**.
- Use the mailing address shown on page 3 of the form.

#### **Period Covered by Return and Accounting Methods**

The return must cover the same period as the partnership's federal income tax return. File a 2009 Wisconsin return for calendar year 2009 or a fiscal year that begins in 2009.

If a partnership elects, under IRC section 444, to have a taxable year other than a required taxable year, that election also applies for Wisconsin. Unlike for federal purposes, the partnership doesn't have to make a required payment of tax as provided in IRC section 7519.

Figure ordinary income by the accounting method regularly used in maintaining the partnership's books and records. The method may include the cash receipts and disbursements method, an accrual method, or any other method permitted by the IRC in effect for Wisconsin. The method must clearly reflect income.

#### **Disclosure of Related Entity Expenses and Reportable Transactions**

A partnership may be required to separately disclose certain expenses paid, accrued, or incurred to a related entity. A partnership or a partnership's material advisor may also be required to separately disclose reportable transactions.

**CAUTION:** Wisconsin law provides that certain related entity expenses shall not be allowed as deductions if they are not timely disclosed as required by the Department of Revenue. Also, penalties may apply for failure to disclose reportable transactions to the Department.

**Disclosure of Related Entity Expenses.** If the partnership will be deducting more than \$100,000 (after considering the effect of apportionment) of interest, rent, management fees, or intangible expenses paid, accrued, or incurred to a related person or entity, the corporation must generally file Schedule RT, Wisconsin Related Entity Expenses Disclosure Statement, with its franchise or income tax return. The Schedule RT instructions explain the reporting requirements.

However, even if you are not required to file Schedule RT, if you are taking deductions for interest, rent, management fees, or intangible expenses, paid, accrued, or incurred to related entities, you must add those expenses back to federal income as Wisconsin modification. If the expenses meet the tests for deductibility, you may subtract them out as subtraction modifications on Schedule 3K.

**Partnership's Disclosure of Reportable Transactions.** If a partnership was required to file federal Form 8886, *Reportable Transaction Disclosure Statement*, with the IRS and that form was required to be filed with the IRS after October 27, 2007, you must file a copy of Form 8886 with the Department of Revenue within 60 days of the date you are required to file it for federal income tax purposes. Send a paper copy of Form 8886, separate from your Form 3, to the following address: Wisconsin Department of Revenue, Tax Shelters Program, P.O. Box 8958, Madison, WI 53708-8958.

See the instructions to federal Form 8886 to determine if you are required to file the form for federal purposes.

**Material Advisor's Disclosure of Reportable Transactions.** A "material advisor" means any person who provides any material aid, assistance, or advice with respect to organizing, managing, promoting, selling, implementing, insuring, or carrying out any reportable transaction (as defined in the U.S. Treasury Regulations) and who, directly or indirectly, derives gross income from providing such aid, assistance, or advice in an amount that exceeds the threshold amount.

For a material advisor providing advice to an entity and not an individual, the "threshold amount" is any of the following:

- \$25,000 if the reportable transaction is a listed transaction (as defined in the U.S. Treasury Regulations).
- \$250,000 if the reportable transaction is not a listed transaction.

For a material advisor providing advice to an individual, the "threshold amount" is any of the following:

- \$10,000 if the reportable transaction is a listed transaction (as defined in the U.S. Treasury Regulations).

- \$50,000 if the reportable transaction is not a listed transaction.

A material advisor that is required to disclose a reportable transaction to the IRS after October 27, 2007, must file a copy of the disclosure with the Department of Revenue within 60 days of the date it is required for federal income tax purposes, if the reportable transaction affects the taxpayer's Wisconsin income or franchise tax liability. For federal purposes, the form required for this disclosure is Form 8918.

If you are required to file Form 8918 for federal income tax purposes and the reportable transaction to which the form relates affects the taxpayer's Wisconsin income or franchise tax liability, send a paper copy, separate from Form 3, to the following address: Wisconsin Department of Revenue, Tax Shelters Program, P.O. Box 8958, Madison, WI 53708-8958.

### Internal Revenue Service Adjustments and Amended Returns

**Internal Revenue Service Adjustments.** If a partnership's federal tax return is adjusted by the IRS and such adjustments affect the Wisconsin net tax payable, the amount of a Wisconsin credit, a Wisconsin net operating loss carryforward, or a Wisconsin capital loss carryforward of a partner, you must report such adjustments to the Department of Revenue within 90 days after they become final.

In addition, each partner must file an amended Wisconsin income tax return reporting his, her, or its share of each adjustment made by the IRS to the partnership return. Each partner must file an amended Schedule 3K-1 with the amended return filed.

**Amended Returns.** If the partnership and the partners file amended federal returns and the changes affect the Wisconsin net tax payable, the amount of a Wisconsin credit, a Wisconsin net operating loss carryforward, or a Wisconsin capital loss carryforward of a partner, both the partnership and the partners must file amended Wisconsin returns with the Department of Revenue within 90 days after filing the amended federal returns.

To file an amended Wisconsin return, use Form 3 and check item F on the front of the return. Provide an explanation of any changes made. If the change involves an item of income, deduction, or credit that you were required to support with a form or schedule on your original return, include the corrected form or schedule with your amended return. In addition include amended Schedules 3K-1 and provide copies to the partners to file with their amended Wisconsin returns.

### Recycling Surcharge

Partnerships, including limited liability companies (LLCs) treated as partnerships, must pay the recycling surcharge if they –

- Must file a Wisconsin partnership return, Form 3,
- Derive income from business transacted, property located, or services performed in Wisconsin, and
- Have \$4 million or more of gross receipts for federal income tax purposes.

“Gross Receipts” are total receipts or sales from all trade or business activities or farming reportable by partnerships for federal income tax purposes, before deducting returns and allowances or any other business expenses. Gross receipts include the sum of the following amounts reportable on federal Form 1065 or its accompanying schedules:

- Gross receipts or sales reportable on federal Form 1065, line 1a,
- Gross receipts passed through from other partnerships and fiduciaries,
- The gross sales price from the sale or disposition of business assets,
- Gross receipts from the rental of real or tangible personal property,
- Gross receipts includable in computing other income or loss on federal Form 1065, line 7, and
- The total receipts or sales from federal Schedule F, Profit or Loss From Farming.

**Note:** When determining gross receipts, include interest and dividends from trade or business activities, such as interest and dividends received by partnerships that are dealers or traders in securities.

Partnerships compute the recycling surcharge on Form 3S, *Wisconsin Partnership Recycling Surcharge*. Form 3S must be filed by the due date, including extensions, for filing Form 3. However, the recycling surcharge must be paid by the 15th day of the 4th month following the close of the taxable period, regardless of the due date of the return. If a partnership's recycling surcharge is \$200 or more, it generally must make estimated surcharge installment payments.

For more information, see the Form 3S instructions. Also see Publication 400, *Wisconsin's Recycling Surcharge*.

### Partnerships Having Nonresident Partners

A partnership that has one or more nonresident partners is generally required to pay pass-through entity withholding.

Additionally, the partnership may file a composite individual income tax return on behalf of qualifying nonresident individual partners.

**Pass-Through Entity Withholding.** A partnership is generally required to pay withholding tax on its distributable income which is allocable to a nonresident partner. A nonresident partner includes:

- An individual who is not domiciled in Wisconsin;
- A partnership, limited liability company, or corporation whose commercial domicile is outside Wisconsin; and
- An estate or trust that is a nonresident under sec. 71.14(1) to (3m), Wis. Stats.

However, withholding is not required on behalf of the following nonresident partners:

- A partner who is not otherwise subject to Wisconsin income or franchise tax (such as a 501(c)(3) organization with no unrelated business taxable income).
- A partner whose share of income from the partnership is less than \$1,000.
- A partner who completes Form PW-2, *Wisconsin Nonresident Partner, Member, Shareholder, or Beneficiary Withholding Exemption Affidavit*, and provides Part 2 of Form PW-2 to the partnership. The completed Form PW-2 must be pre-approved by the Department of Revenue. See the Form PW-2 instructions for details.

**New for taxable years beginning on or after January 1, 2009.** A pass-through entity is required to pay quarterly estimated withholding tax on a nonresident member's share of income attributable to Wisconsin. The pass-through entity must make quarterly payments of withholding tax on or before the 15th day of the 3rd, 6th, 9th, and 12th month of the taxable year. A transition or grace period is provided for payments that became due less than 45 days after July 1, 2009. The due date of these payments is extended to the next installment due date. You must make the estimated withholding tax payments electronically. If you obtained a waiver from electronic payment, use Form PW-ES, *Wisconsin Pass-Through Entity Withholding Estimated Payment Voucher*, to make the estimated withholding tax payments.

The partnership must also file Form PW-1, *Wisconsin Nonresident Income or Franchise Tax Withholding on Pass-Through Entity Income*, annually to report estimated withholding tax paid and to pay any additional withholding tax due on behalf of its nonresident partners. Form PW-1 is due with payment by the 15th day of the 4th month following the close of the partnership's taxable year. See the Form PW-1 instructions for details of the filing procedures.

### **Composite Return for Nonresident Individual Partners.**

A partnership that has two or more nonresident individual partners who derive no taxable income or deductible loss from Wisconsin other than their distributive shares from the partnership may file a composite individual income tax return on behalf of those partners. The partnership files this return on Form 1CNP, *Composite Individual Income Tax Return for Nonresident Partners*.

Individuals that are fiscal year filers or part-year Wisconsin residents may not participate in the composite return. No tax credits are allowed on the composite return other than a credit for pass-through entity withholding tax paid on behalf of each participating partner. Additionally, participating partners cannot claim the IRC section 199 deduction or any amounts deductible as itemized deductions on the composite return.

Partners that do not qualify to participate in the composite return must file a separate Wisconsin return to report the income from the partnership.

For more information on eligibility for composite filing and composite filing procedures, see the Form 1CNP instructions.

### **Schedules 3K-1 and Information Returns**

**Schedules 3K-1.** The partnership must submit a Schedule 3K-1 for each of its partners along with its Form 3. The Department is no longer accepting Schedules 3K-1 on magnetic media. File them using electronic transfer. You may obtain specifications on the Department's web site after January 1, 2010, at [www.revenue.wi.gov/eserv/w-2.html](http://www.revenue.wi.gov/eserv/w-2.html).

**Information Returns for Miscellaneous Income.** If the partnership paid \$600 or more in rents, royalties, or certain nonwage compensation to one or more individuals, the partnership must file an information return to report those payments. You may use Wisconsin Form 9b, *Miscellaneous Income*, or you may use federal Form 1099 instead of Form 9b. For more information, see the Form 9b instructions.

### **Wisconsin Use Tax**

The partnership may be liable for use tax. Use tax is the counterpart of sales tax. All tangible personal property, certain coins and stamps, certain leased properties affixed to real estate, certain digital goods, and selected services, taxable under Wisconsin's sales tax law, which are stored, used, or consumed in Wisconsin, are subject to use tax if the proper sales tax is not paid. Examples of purchases that frequently result in a use tax liability include the following:

- Mail order and Internet purchases. You owe Wisconsin use tax if you buy such items as computers, furniture, or office supplies from a vendor who is not registered to collect Wisconsin tax.
- Inventory. If you purchase inventory items without tax for resale, and then use these items instead of selling them, you owe use tax.
- Give-aways. Generally, if you purchase items without tax and then give them away in Wisconsin, you owe use tax.

If you hold a seller's permit, use tax certificate, or consumer's use tax certificate, report your use tax on your sales and use tax return, Form ST-12. Otherwise, complete and file Form UT-5 to report use tax.

For more information on use tax, visit the Department's web site at [www.revenue.wi.gov/html/sales.html](http://www.revenue.wi.gov/html/sales.html), call (608) 266-2776, e-mail [sales10@revenue.wi.gov](mailto:sales10@revenue.wi.gov), or write to the Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8949, Madison, WI 53708-8949.

### Obtaining Forms and Assistance

If you need forms or publications, you may:

- Download them from the Department's Internet web site at [www.revenue.wi.gov](http://www.revenue.wi.gov)

- Request them online at [www.revenue.wi.gov/faqs/pcs/forms.html](http://www.revenue.wi.gov/faqs/pcs/forms.html)
- Call (608) 266-1961  
(Telephone help is also available using TTY equipment. Call the Wisconsin Telecommunications Relay System at 711 or, if no answer, (800) 947-3529. These numbers are to be used only when calling with TTY equipment.)
- Write to the Forms Request Office, Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8949, Madison, WI 53708-8949
- Call or visit any Department of Revenue office.

If you need help in preparing a partnership tax return, you may:

- E-mail your question to [income@revenue.wi.gov](mailto:income@revenue.wi.gov).
- Send a FAX to (608) 267-1030.
- Call (608) 266-2772.
- Write to the Customer Service and Education Bureau, Wisconsin Department of Revenue, Mail Stop 5-77, P.O. Box 8949, Madison, WI 53708-8949.
- Call or visit any Department of Revenue office.

## Conformity With Internal Revenue Code and Exceptions

The Wisconsin income and franchise tax law applicable is based on the federal Internal Revenue Code (IRC). The IRC generally applies for Wisconsin purposes at the same time as for federal purposes. However, significant exceptions apply. These exceptions are discussed below.

**Note:** The exceptions listed below are those in effect as of the publication date of these instructions. It is possible that subsequent changes in Wisconsin law may add or eliminate some exceptions applicable to taxable years beginning in 2009.

### Amendments to Internal Revenue Code After December 31, 2008

Wisconsin has not adopted any amendments to the IRC enacted after December 31, 2008. Federal law changes enacted after December 31, 2008, do not apply for Wisconsin purposes. For instance, Public Law 111-5, American Recovery and Reinvestment Act of 2009, enacted on February 17, 2009, and Public Law 111-92, Worker, Homeownership, and Business Assistance Act of 2009, enacted on November 6, 2009, do not apply for Wisconsin purpose.

### Depreciation and Section 179 Expensing

If partnership has depreciation deductions or section 179 expense deductions, it is very likely that the amount of deduction will be different for Wisconsin purposes than for federal purposes.

**Depreciation or Amortization Provisions Enacted After December 31, 2000.** For Wisconsin purposes, depreciation or amortization is determined under the provisions of the IRC in effect on December 31, 2000. For example, the following provisions do not apply for Wisconsin purposes because they were enacted after December 31, 2000:

- 30% bonus depreciation (sec. 101 of P.L. 107-147, sec. 201 of P.L. 108-27, sec. 403(a) of P.L. 108-311)
- 50% bonus depreciation (sec. 201 of P.L. 108-27)
- Accelerated depreciation for Indian reservation property (sec. 316 of P.L. 108-311)
- Modification of application of income forecast method of depreciation (sec. 242 of P.L. 108-357)

- Special expensing provisions for film and television productions (sec. 244 of P.L. 108-357)
- Special rules on depreciation for aircraft (sec. 336 of P.L. 108-357)
- Modification of placed in service rule for bonus depreciation (sec. 337 of P.L. 108-357)
- Expansion of limitation on depreciation of certain passenger automobiles (sec. 910 of P.L. 108-357)
- Treatment of electric transmission property as 15-year property (sec. 1308 of P.L. 109-58)
- Expansion of amortization for certain atmospheric pollution control facilities (sec. 1309 of P.L. 109-58)
- Special expensing provisions for equipment used in refining liquid fuels (sec. 1323 of P.L. 109-58)
- Natural gas distribution lines treated as 15-year property (sec. 1325 of P.L. 109-58)
- Natural gas gathering lines treated as 7-year property (sec. 1326 of P.L. 109-58)
- Special rules for amortization of geological and geophysical expenditures (sec. 1329 of P.L. 109-58, sec. 503 of P.L. 109-222)
- Extension for placed in service rules for bonus depreciation for taxpayers affected by Hurricane Katrina, Rita, and Wilma (sec. 105 of P.L. 109-135)
- Election to amortize musical works and copyrights over a 5-year period (sec. 207 of P.L. 109-222)

**Section 179 Expense Limitations.** For Wisconsin purposes, the allowable amount of section 179 expensing depends on whether the property is used in farming by a person actively engaged in farming. In either case, different maximum amounts and phaseout thresholds apply for Wisconsin purposes than for federal purposes. Additionally, off-the-shelf computer software is not considered qualifying property for Wisconsin purposes, although it is qualifying property for federal purposes.

In general, the maximum section 179 expense and phase out threshold amounts for taxable years beginning in 2009 are as follows:

<b>Section 179 Property in General</b>		
	<b>Wisconsin Law</b>	<b>Federal Law</b>
Maximum Section 179 Expense	\$25,000	\$250,000
Phase out Threshold (Amt. of qualifying property)	\$200,000	\$800,000

For property used in farming by a person actively engaged in farming, the maximum section 179 expense and phase out threshold amounts for taxable years beginning in 2009 are as follows:

<b>Section 179 Property Used in Farming by a Person Actively Engaged in Farming</b>		
	<b>Wisconsin Law</b>	<b>Federal Law</b>
Maximum Section 179 Expense	\$120,000	\$250,000
Phaseout Threshold (Amt. of qualifying property)	\$480,000	\$800,000

For purposes of Wisconsin section 179 expense, “farming” has the meaning given in section 464(e)(1) of the IRC and “actively engaged in farming” has the meaning given in 7 CFR 1400.201.

**Other Exceptions to Internal Revenue Code**

The following federal provisions in effect as of December 31, 2008, are specifically excluded for Wisconsin franchise and income tax purposes:

**Small Business Stock.** For federal purposes, 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 5 years (sec. 13113 of P.L. 103-66). For Wisconsin purposes, this section does not apply.

**Installment Method for Accrual Basis Taxpayers.** For federal purposes, accrual basis taxpayers may report income from an installment sale under the installment method (P.L. 106-573). For Wisconsin purposes, accrual basis taxpayers cannot use the installment method. Gain from the sale of property must be recognized the year of the sale. This does not apply to dispositions of property used or produced in farming or for certain dispositions of timeshares or residential lots.

**Health Savings Accounts.** For federal purposes, certain individuals may establish health savings accounts. A deduction is allowed for contributions to the account. Amounts contributed by an employer to an employee’s account are excluded from the employee’s gross income. (sec. 1201 of P.L. 108-173, and secs. 302, 303, 304, and 305 of P.L. 109-432). For Wisconsin purposes, the health savings accounts provisions do not apply.

**Domestic Production Activities Deduction.** For federal tax purposes, taxpayers may claim a deduction against gross income equal to a percentage of its qualified production activities income or its taxable income without regard to the deduction. For taxable years beginning after December 31, 2004, and before January 1, 2009, the federal domestic production activities deduction also applied for Wisconsin income and franchise tax purposes. Effective



for taxable years beginning on or after January 1, 2009, the domestic production activities deduction will no longer apply for Wisconsin purposes (sec. 102 of P.L. 108-357).

***Other Provisions Not Adopted for Wisconsin Purposes.***

- Elimination of earnings and profits from pre-1983 S corporation years from an S corporation's accumulated earnings and profits (sec. 1311 of P.L. 104-188)
- Exclusion for extraterritorial income (sec. 1, 3, 4, and 5 of P.L. 106-519), repeal of such exclusion (sec. 101 of P.L. 108-357, sec. 11(g) of P.L. 110-172), and binding-contract relief provisions (sec. 513 of P.L. 109-222) (Note: Foreign sales corporation (FSC) treatment is repealed for Wisconsin purposes for taxable years beginning on or after January 1, 2005.)
- Special expensing provisions for environmental remediation costs and extension of the termination date (sec. 162 of P.L. 106-554, sec. 308 of P.L. 108-311)
- Election to defer gain on disposition of transmission property to implement Federal Regulatory Commission or state electric restructuring (sec. 909 of P.L. 108-357, sec. 1305 of P.L. 109-58)
- Enhanced deduction for corporate donations of computer technology and extension of the termination date (sec. 165 of P.L. 106-554, sec. 306 of P.L. 108-311)
- Tax benefits for Gulf Opportunity (GO) Zones (sec. 101 of P.L. 109-135)
- Exceptions to imputed interest rules for loans to continuing care facilities (sec. 209 of P.L. 109-222)
- Special temporary dividends received deduction for re-investing foreign earnings in the U.S. (sec. 422 of P.L. 108-357)
- Reform of tax treatment of certain leasing arrangements (sec. 847 of P.L. 108-357)
- Special rules for nuclear decommissioning costs (sec. 1310 of P.L. 109-58)
- Pass-through of deduction for costs incurred by small refiner cooperatives to comply with EPA sulfur regulations (sec. 1324 of P.L. 109-58)
- Expansion of research credit (sec. 1351 of P.L. 109-58)
- Special tax treatment of state ownership of railroad real estate investment trust (sec. 11146 of P.L. 109-59)
- All provisions of P.L. 109-432, Tax Relief and Health Care Act of 2006 (enacted December 20, 2006)
- Special rules relating to 2010 IRA conversions to Roth IRA (sec. 512 of P.L. 109-222)
- Provisions making permanent the pension and IRA provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (sec. 811 of P.L. 109-280)
- Special treatment of annuity and life insurance contracts with long-term care insurance feature (sec. 844 of P.L. 109-280)
- All provisions of P.L. 110-28, U.S. Troop Readiness, Veteran's Care, Katrina Recovery and Iraq Accountability Appropriations Act of 2007
- All provisions of P.L. 110-140, Energy Independence and Security Act of 2007
- All provisions of P.L. 110-141, Victims of Events at Virginia Polytechnic Institute and State University
- All provisions of P.L. 110-142, Mortgage Forgiveness Debt Relief Act of 2007
- All provisions of P.L. 110-166, Tax Increase Prevention Act of 2007
- All provisions of P.L. 110-172, Tax Technical Corrections Act of 2007
- All provisions of P.L. 110-185, Economic Stimulus Act of 2008
- All provisions of P.L. 110-234, Food, Conservation and Energy Act of 2008
- All provisions of P.L. 110-245, Heroes Earnings Assistance and Relief Act of 2008
- All provisions of P.L. 110-289, Housing Assistance Act of 2008
- All provisions of P.L. 110-317, Hubbard Act
- All provisions of P.L. 110-343, Emergency Economic Stabilization Act of 2008, and
- All provisions of P.L. 110-351, Fostering Connections to Success and Increasing Adoptions Act of 2008.)

**How to Report Differences**

You must report any differences between federal income and income for Wisconsin purposes in Schedule 3K, column c. For differences relating to depreciation and amortization, you must prepare schedules detailing the differences between the federal and Wisconsin computations and submit them with your return.

## Specific Instructions for Form 3

If you are filing federal Form 1065-B with the Internal Revenue Service, special instructions apply which are not covered here. For the special instructions, go to the Frequently Asked Questions on the Department of Revenue web site at [www.revenue.wi.gov/faqs/index-b.html](http://www.revenue.wi.gov/faqs/index-b.html) and click on the link for “Partnerships.”

### Items A Through P

Before completing items A. through P., fill in the partnership’s 2009 taxable year at the top of the form and the partnership’s name and address.

■ **A. Federal Employer Identification Number** – Enter the partnership’s federal employer identification number (EIN).

■ **B. Business Activity (NAICS) Code** – Enter the partnership’s principal business activity code, based on the North American Industry Classification System (NAICS), from your federal return.

■ **C. State of Formation and Year** – Enter the 2-letter postal abbreviation for the state (or name of the foreign country) under whose laws the partnership was organized and the year of formation.

■ **D. Entity Type** – Check the space indicating which type of entity is filing this return. If your entity is not one of the types listed, check the space next to “Other” and indicate the type of entity.

■ **E. Extended Due Date** – If the partnership has an extension of time to file its Wisconsin return, check here and enter the extended due date.

■ **F. Amended Return** – If this is an amended return, check here. Circle or clearly underline the line number of the lines you are changing and submit a detailed explanation of the changes made, including any supporting form or schedule.

■ **G. Partnership Termination** – Check here if the partnership terminated during the taxable year.

■ **H. Filing Form 1CNP** – Check here if the partnership is filing a composite Wisconsin individual income tax return, (Form 1CNP) on behalf of its qualified and participating nonresident partners.

■ **I. Schedule RT Required** – Check here if the partnership is filing Schedule RT, *Wisconsin Related Entity Expenses Disclosure Statement*, with its return. Schedule RT is generally required if the partnership pays, accrues, or in-

curs more than \$100,000 of expenses to a related person or entity in the taxable year. See the Schedule RT instructions for details of the requirement to file Schedule RT.

■ **J. Form 3S Required** – Check here if the entity has \$4 million or more of gross receipts and is required to file Form 3S and pay the recycling surcharge, as described previously.

■ **K. Number of Partners** – Enter the total number of partners that the partnership had during the taxable year.

■ **L. Number of Nonresident Partners** – Enter the total number of nonresident partners that the partnership had during the taxable year, including individuals, estates, and trusts not domiciled in Wisconsin and other partnerships, limited liability companies, and corporations whose commercial domicile is not in Wisconsin.

■ **M1-M2. Wisconsin Property and Total Company Property** – Enter the total amount of the company’s real and tangible property located in Wisconsin and the company’s total amount of real and tangible property everywhere. Use the cost basis of the property as of the end of the year. Include the following types of property:

- Land
- Buildings
- Furniture and Fixtures
- Transportation equipment
- Machinery and other equipment
- Inventories

Include only property that is owned by the partnership; you do not need to include property you are renting.

■ **N1-N2. Wisconsin Payroll – Wisconsin Payroll and Total Company Payroll** – Enter the total amount of the company’s payroll located in Wisconsin and the company’s total amount of payroll everywhere. Include only amounts attributable to employees of the corporation. In the computation of payroll located in Wisconsin, include individuals that satisfy one or more of the following:

- The individual’s service is performed entirely in Wisconsin.
- The individual’s service is performed in and outside Wisconsin, but the service performed outside Wisconsin is incidental to the individual’s service in Wisconsin.

- A portion of the individual's service is performed in Wisconsin and the base of operations of the individual is in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and, if there is no base of operations, the place from which the individual's service is directed or controlled is in Wisconsin.
- A portion of the individual's service is performed in Wisconsin and neither the base of operations of the individual nor the place from which the service is directed or controlled is in any state in which some part of the service is performed, but the individual's residence is in Wisconsin.

■ **O. Wisconsin Sales** – Enter the amount of your Wisconsin sales. If **not** apportioning income, enter your **total** company sales. If apportioning income, enter your Wisconsin sales from Form 4A-1, Part I. For purposes of the sales factor, sales include, but aren't limited to, the following items related to the production of apportionable income:

- Gross receipts from the sale of inventory.
- Gross receipts from the operation of farms, mines, and quarries.
- Gross receipts from the sale of scrap or by-products.
- Gross commissions.
- Gross receipts from personal and other services.
- Gross rents from real property or tangible personal property.
- Interest on trade accounts and trade notes receivable.
- A member's share of a limited liability company's gross receipts or a partner's share of a partnership's gross receipts.
- Gross management fees.
- Gross royalties from income producing activities.
- Gross franchise fees from income producing activities.

“Gross receipts” means gross sales less returns and allowances, plus service charges, freight, carrying charges, or time-price differential charges incidental to the sales. Federal and state excise taxes, including sales and use taxes, are included as part of the receipts if the taxes are passed on to the buyer or included as part of the selling price.

■ **P. Contact Person** – Enter the name, telephone number and fax number of the person the Department should contact with any questions regarding this return.

### Schedule 3K, Columns b Through d

Schedule 3K is a summary schedule of all the partners' shares of the partnership's income, deductions, credits, etc., as computed under Wisconsin law, similar to federal Schedule K.

■ **Column b. Federal Amount** – Enter the applicable amounts from federal Schedule K in column b of Schedule 3K. For dividends and the net long-term capital gain (loss) items reported on lines 6 and 9, use the totals from federal Schedule K.

■ **Column c. Adjustment** – Enter in column c any adjustments to the federal amount necessary to arrive at the amount under Wisconsin law. However, note the following:

- Do not exclude a nonresident or part-year resident partner's share of partnership items that are attributable to business transacted outside Wisconsin, services performed outside Wisconsin, or real or tangible personal property located outside Wisconsin. These adjustments will be made on the Schedule 3K-1 of each affected partner, as described later in the specific instructions for Schedule 3K-1.
- Do not make any adjustments on Schedule 3K (or on Schedule 3K-1) for an individual, estate, or trust partner's capital gain deduction or capital loss limitation. Instead, each partner will compute its own capital gain deduction or loss limitation on Wisconsin Schedule WD.

For any adjustments you enter in column c, you must prepare an explanation and submit it with your return. See the section that follows for examples of the adjustments that you are required to enter in column c.

■ **Column d. Wisconsin Amount** – Combine the amount in column b with any adjustment in column c and enter the result in column d.

### Adjustments Reportable on Schedule 3K, Column c

You must make adjustments on Schedule 3K, Column c in the following situations:

**When a Provision of Federal Law Doesn't Apply for Wisconsin Purposes.** You must make an adjustment if an amount in column b is computed under a provision of the IRC that was not adopted for Wisconsin purposes, as described earlier in these instructions. For gains and losses on sales of depreciable or amortizable assets, you will need to compute an adjustment amount in cases where your asset basis for federal purposes was different than your asset basis for Wisconsin purposes due to differences in depreciation and amortization.

These adjustments are often called “Schedule I adjustments” because individuals must report them on Wisconsin Schedule I.

**Adjustments required because different elections are made for federal and Wisconsin purposes.** Examples of different elections include the following:

- For assets placed in service in taxable years beginning before January 1, 2001, a partnership could compute depreciation or amortization under either the IRC in effect for the year for which the return was filed or the IRC as amended to a specific date, at the taxpayer’s option. An asset placed in service before 2001 must continue to be depreciated or amortized under the method elected for Wisconsin purposes for the year in which it was placed in service.
- For property placed in service after December 31, 1982, a taxpayer that claimed investment tax credit for federal purposes could either (a) claim the full 10% credit and reduce the depreciable basis of the property by one-half of the credit, or (b) in the case of regular investment tax credit property, claim a reduced credit and depreciate the full cost of the property. A partnership that claimed the regular investment tax credit and reduced the depreciable basis of the property for federal purposes could compute depreciation on the full (unreduced) basis of the property for Wisconsin purposes.
- Wages that aren’t deductible for federal purposes because they were used in computing the federal work opportunity tax credit may be deducted for Wisconsin purposes.

**Adjustments Required for Modifications Prescribed in Wisconsin Law.** Most modifications required to compute a partner’s Wisconsin net income are computed by that partner rather than at the partnership level. This includes many of the modifications prescribed in sec. 71.05(6) to (12), (19), and (20), Wis. Stats. However, several types of modifications may be reportable by the partnership in column c. These modifications are described next.

### Modifications Prescribed in Wisconsin Law

The following are examples of Wisconsin modifications that may be required in Schedule 3K, column c.

**Tax Credit Amounts.** Certain tax credits computed by the partnership are required to be added back to the partnership’s ordinary income (line 1). These credits include the following:

- Manufacturing investment credit
- Dairy and livestock farm investment credit
- Film production credits
- Electronic medical records credit

- Health Insurance Risk-Sharing Plan assessments credit
- Ethanol and biodiesel fuel pump credit
- Community rehabilitation program credit
- Development zones credits
- Economic development tax credit
- Technology zone credit
- Biodiesel fuel production credit
- Internet equipment credit
- Enterprise zone jobs credit
- Dairy manufacturing facility investment credit
- Jobs tax credit
- Meat processing facility investment credit
- Beginning farmer and farm asset owner tax credit

**State Taxes.** For Wisconsin purposes, state taxes and taxes of the District of Columbia that are value-added taxes, single business taxes, or taxes on or measured by all or a portion of net income, gross income, gross receipts, or capital stock are not deductible by partnerships.

**Related Entity Expenses.** A partnership must make an addition modification to “add back” interest, rental, or intangible expenses or management fees paid, accrued, or incurred to a related entity. After the partnership makes this addition modification, the partnership completes Schedule RT to determine if it is eligible for a deduction for any of the amount added back. The partnership then makes a subtraction modification in the amount for which it is eligible for a deduction.

See the Schedule RT instructions for further details of the expenses that require this modification and the specific criteria that must be met in order to deduct related entity interest, rental, or intangible expenses or management fees.

The partnership reports the addition modifications for related entity expenses on Schedule 3K, line 21a. For the amount eligible for a deduction, the partnership enters the subtraction amount on Schedule 3K, line 21b. Additionally, these amounts must be reported as adjustments in column c on the lines to which the expenses relate. For example, if the related entity rental expense is an item of ordinary income, the modifications must also be reported on Schedule 3K, line 1, column c.

**Income from Expenses Disallowed to Related Entity.** If the partnership has interest, rental, or intangible income or management fees from a related entity, and that related entity was ineligible to claim a deduction for the interest, rental, or intangible expenses or management fees because it did not meet the criteria set forth in Schedule RT, the

partnership may make a subtraction modification to exclude the income corresponding to the expense that the payor could not deduct. The partnership makes the subtraction on the line of Schedule 3K corresponding to the type of income being modified.

**Pre-1987 Depreciation Differences.** Certain differences in Wisconsin and federal depreciation that existed before 1987 are treated as modifications. For example, federal ACRS deductions weren't available for Wisconsin purposes for the following property placed in service during the 1986 taxable year: (a) residential real property, and (b) property used in farming, as defined in IRC section 464(e)(1), if the taxpayer's nonfarm Wisconsin adjusted gross income or gross farm profit exceeded specified amounts. Instead, such property had to be depreciated under a method permitted in the IRC as amended to December 31, 1980. This property must continue to be depreciated for Wisconsin purposes under the December 31, 1980, IRC.

**Certain Basis Differences.** Certain basis differences are treated as modifications. For example, for Wisconsin purposes, property taxes paid on vacant land had to be capitalized for 1964 and prior taxable years. A transitional adjustment must be made for this basis difference upon disposition of the property. Recompute the gain or loss on federal Form 4797 or federal Schedule D, as appropriate, by substituting the Wisconsin basis for the federal basis. Show the difference as a modification in column c.

**Differences in Taxable Interest Income.** If the tax-exempt interest income reported on line 18a, column b, includes any interest that is exempt for federal purposes but taxable by Wisconsin (such as state and local government bond interest) report this amount as an *addition* on line 5, column c, and as a *subtraction* on line 18a, column c.

If the interest income reported on line 5, column b, includes any interest from obligations of the United States government and its instrumentalities, do not subtract this amount on Schedule 3K, line 5, column c. Instead, identify this amount on a separate schedule for line 20c.

**CAUTION:** Do not subtract interest income from obligations of the United States government and its instrumentalities from interest income on Schedule 3K, line 5, column c. This income is taxable to partners who are subject to Wisconsin franchise tax.

**Differences for Other Income and Expense Items.** Income reported on line 18b that is exempt for federal purposes but taxable by Wisconsin is shown as a *subtraction* in column c. If more income is nontaxable for Wisconsin purposes than for federal purposes, show the additional amount of exempt income as an *addition*. The amount un-

der Wisconsin law in column d is the amount of tax-exempt income for Wisconsin purposes.

Expenses on line 18c that are nondeductible federally but deductible for Wisconsin purposes are shown as *subtractions* in column c. If more expenses are nondeductible for Wisconsin purposes than for federal purposes, show the additional amount of nondeductible expenses as an *addition*. The amount under Wisconsin law in column d is the nondeductible expense for Wisconsin purposes.

### Credits Reportable on Schedule 3K, Line 15

To determine if you are eligible for any of the credits in lines 15a through 15u, see Publication 123, *Business Tax Credits for 2009*, or refer to the instructions to the credit schedules referenced below. Except as otherwise indicated, you must file the credit schedule referenced below with your Form 3 in order to claim the credits on Schedule 3K.

■ **Line 15a. Manufacturing Investment Credit** – Enter the amount of manufacturing investment credit for which the partnership obtained certification from the Wisconsin Department of Commerce. Submit a copy of the Department of Commerce certification with the partnership's Form 3. The partnership is not required to complete Schedule MI.

■ **Line 15b. Dairy and Livestock Farm Investment Credit** – Enter the dairy and livestock farm investment credit computed from Wisconsin Schedule DI, line 7.

■ **Line 15c. Health Insurance Risk-Sharing Plan Assessments Credit** – Enter the Health-Insurance Risk Sharing Plan assessment credit computed from Schedule HI, line 4.

■ **Line 15d. Ethanol and Biodiesel Fuel Pump Credit** – Enter the ethanol and biodiesel fuel pump credit computed from Schedule EB, line 5.

■ **Line 15e. Development Zones Credit** – Enter the development zones credit computed from Wisconsin Schedule DC, line 5.

■ **Line 15f. Development Opportunity Zone Investment Credit** – Enter the development opportunity zone investment credit computed from Schedule DC, line 13.

■ **Line 15g. Development Zone Capital Investment Credit** – Enter the development opportunity zone or agricultural or airport development zone capital investment credit computed from Schedule DC, line 21.

■ **Line 15h. Economic Development Tax Credit** – Enter the economic development tax credit computed from Wisconsin Schedule ED, line 3.

■ **Line 15i. Technology Zone Credit** – Enter the technology zone credit computed from Wisconsin Schedule TC, line 6.

■ **Line 15j. Early Stage Seed Investment Credit** – Enter the early stage seed investment credit computed from Schedule VC, line 10.

■ **Line 15k. Angel Investment Credit** – Enter the angel investment credit computed from Schedule VC, line 4.

■ **Line 15l. Supplement to Federal Historic Rehabilitation Credit** – Enter the supplement to the federal historic rehabilitation tax credit computed from Wisconsin Schedule HR, line 5.

■ **Line 15m. Film Production Company Investment Credit (nonrefundable)** – Enter the nonrefundable film production company investment credit computed from Schedule FP, line 14.

■ **Line 15n. Film Production Services Credit (nonrefundable)** – Enter the nonrefundable film production services credit computed from Schedule FP, line 9.

■ **Line 15o. Internet Equipment Credit** – Enter the Internet equipment credit computed from Wisconsin Schedule IE, line 3.

■ **Line 15p. Dairy Manufacturing Facility Investment Credit** – Enter the dairy manufacturing facility investment credit computed from Schedule DM, line 13.

■ **Line 15q. Dairy Cooperatives Credit** – Enter the dairy cooperatives credit computed from Schedule DM, line 14.

■ **Line 15r. Meat Processing Facility Investment Credit** – Enter the meat processing facility investment credit computed from Schedule MP, line 7.

■ **Line 15s. Enterprise Zone Jobs Credit** – Enter the enterprise zone jobs credit computed from Schedule EC, line 3.

■ **Line 15t. Film Production Services Credit (refundable)** – Enter the refundable film production services credit computed from Schedule FP, line 3.

■ **Line 15u. Film Production Company Investment Credit (refundable)** – Enter the refundable film production company investment credit computed from Schedule FP, line 6.

■ **Line 15v. Credit for Tax Paid to Other States** – If the partnership does business in another state and either the partnership or its partners must pay an income tax on the partnership's income earned there, Wisconsin resident partners may be able to claim credit on their individual in-

come tax returns for their pro rata shares of the tax paid. Credit is allowed only if the income taxed by the other state is considered taxable income by Wisconsin. Fill in line 15v if:

- The partnership files a combined or composite return with that state on behalf of the partners who are nonresidents of that state and pays the tax on their pro rata shares of the partnership's income earned there.
- The partnership files a partnership income tax return with that state and pays tax on the income earned there that is attributable to the partners who are nonresidents of that state.

Enter the postal abbreviation of the state in the space provided and the amount of income tax paid to that state. If tax is paid to more than three states, enter "See Attached" on one of the entry lines, enter the total amount on that line, and submit a schedule listing all states and the amount of income tax paid to each state. Submit with Form 3 a copy of the income tax return filed with each state for which a credit is claimed.

■ **Line 15w. Wisconsin Tax Withheld** – If the partnership is subject to withholding tax on the Wisconsin income of nonresident partners, enter, the amount of Wisconsin tax withheld. Generally, this will be the amount the partnership paid with Form PW-1. However, if the partnership is a member of another pass-through entity that already withheld Wisconsin tax on income passed through to the partnership, also include the tax withheld by that other pass-through entity on the partnership's share of income.

**CAUTION:** On line 15w, do not include any cash deposits or withholding made with Form WT-11, *Nonresident Entertainer's Application and Receipt for Surety Bond, Cash Deposit, or Withholding by Employer*. Use Form 3S to report those amounts.

#### "Other Items and Amounts" Reportable on Schedule 3K, Item 20c

For line 20c, submit a schedule showing any items and amounts not included on lines 1 through 20b that must be reported separately to the partners. Include the federal amount, any adjustment, and the amount determined under Wisconsin law for each item. Amounts that may be included on this schedule include, but are not limited to, the following:

**U.S. Government Interest.** If the interest income on line 5, column b, includes any interest from United States government obligations that is taxable for federal purposes but exempt from Wisconsin income taxes, report the amount of United States government interest on this schedule.

**Disposal of Section 179 Property.** If the partnership disposed of property for which a section 179 expense deduction was claimed in a prior year, provide the following information for each asset: description of the property; gross sales price; both the federal and the Wisconsin cost or other basis plus expense of sale (*excluding* the partnership's basis reduction in the property due to the section 179 expense deduction); depreciation allowed or allowable (*excluding* the section 179 expense deduction); and both the federal and Wisconsin amount of section 179 expense deduction passed through in previous years for the property and the partnership's taxable years for which the amounts were passed through.

### Schedule 3K, Lines 21 Through 23

■ **Lines 21a and 21b. Related Entity Expenses** – On line 21a, enter in column d the amounts attributable to interest, rental, or intangible expenses or management fees paid, accrued, or incurred to a related entity. On line 21b, enter the amounts eligible for a deduction as determined by the Schedule RT instructions. If line 21a exceeds \$100,000, the partnership must file Schedule RT with its Form 3. See the Schedule RT instructions for details.

■ **Line 22. Income (Loss)** – For each of columns b and d, combine lines 1 through 11. From the result, subtract the sum of lines 12 and 13a through 13d. Add or subtract, as appropriate, any income or deductions reported on line 20c that affect the computation of taxable income.

If you reported on line 20c the disposition of property for which a section 179 expense deduction was claimed in a prior year, complete federal Form 4797 to figure the amount of gain or loss to combine with the other items of income, loss, and deduction. If the federal and Wisconsin bases of the property or section 179 deductions differ, use two Forms 4797. Disregard the special instructions for partnerships and partners when filling out Form 4797. On one Form 4797, determine the federal gain or loss to combine with the other federal amounts reported in column b. Complete a second Form 4797 to compute the Wisconsin gain or loss to combine with the other Wisconsin amounts reported in column d.

■ **Line 23. Gross Income** – Enter the partnership's gross income that is reportable to Wisconsin. Gross income is the total amount received from all activities, before deducting the cost of goods sold or any other expenses. Gross income includes gross receipts from trade or business activities, gross rents and royalties, interest and dividends, the gross sales price of assets, and all other gross receipts. If the partnership is a member of one or more other pass-through entities, include gross income attributable to those other pass-through entities.

### Submitting Your Form 3

**Signatures.** A general partner of the partnership or an LLC member must sign the form on page 3. If the return is prepared by someone other than an employee of the partnership, the preparer's signature is also required.

**Supporting Documentation.** Submit the following items with your Form 3:

- Federal Form 1065. (may be submit as .pdf document with electronic returns)
- Supporting schedules (supporting schedules that are not Department-prescribed forms may be submitted as .pdf documents with electronic returns).
- Wisconsin Schedule 3K-1 or federal Schedule K-1 for each partner.
- Any extension of time to file.
- If the partnership has a nonresident partner who is not subject to income or franchise tax and would otherwise be subject to withholding tax based on income passed through to that partner, include a statement from that partner stating why no tax was withheld.

If you are filing Form 3 on paper, **do not staple, fasten or bind these supporting documents to your return. Use paper clips instead.**

## Specific Instructions for Schedule 3K-1

Schedule 3K-1 shows each partner's share of the partnership's income, deductions, credits, etc., which have been summarized on Schedule 3K. Like Schedule 3K, Schedule 3K-1 requires an entry for the federal amount, adjustment, and amount determined under Wisconsin law of each applicable item. In addition, Schedule 3K-1 for a non-resident or part-year resident partner requires a separate entry for the amount of each share item attributable to Wisconsin.

Prepare a Schedule 3K-1 for each individual or entity that was a partner in the partnership at any time during the partnership's taxable year. File a copy of each partner's Schedule 3K-1 with the Form 3 filed with the Department. Keep a copy as part of the partnership's records, and give each partner his, her, or its own separate copy. Schedule 3K-1 must be prepared and given to each partner on or before the day on which Form 3 is filed. In addition, give each partner a copy of the "Partner's Instructions for 2009 Schedule 3K-1."

### Federal Schedules K-1

Since the Wisconsin Schedule 3K-1 replaces the federal Schedule K-1, a partnership doesn't have to also file a federal Schedule K-1 for each partner with Form 3. However, you may submit copies of the federal Schedules K-1 instead of preparing Schedules 3K-1 in the following situations:

- If the partnership operates only in Wisconsin and, on Schedule 3K, reports no adjustments in column c or credits in column d, you may use Schedules K-1 to report the Wisconsin partnership items for all partners.
- If the partnership operates in and outside Wisconsin and, on Schedule 3K, reports no adjustments in column c or credits in column d, you may use Schedules K-1 for **full-year Wisconsin resident** partners.

If you file federal Schedules K-1 instead of Wisconsin Schedules 3K-1, *you must state on the partner's federal Schedule K-1 that there aren't any Wisconsin adjustments or credits.*

### Information About the Partnership

■ **Items A Through D.** Enter the information about the partnership from the partner's federal Schedule K-1.

### Information About the Partner

■ **Items E Through H.** Enter the information about the partner from the partner's federal Schedule K-1.

■ **Item I.** Enter the partner's entity type from federal Schedule K-1. If the partnership is aware that the partner is a disregarded entity or grantor trust, enter in item I the name of the member or grantor to whom the income on Schedule 3K-1 will be reported. If you enter this information, it is less likely that the Department of Revenue will need to contact you or the partner to verify that the proper amount of income is reported.

■ **Items J and K.** Enter the information about the partner from the partner's federal Schedule K-1.

■ **Item L.** Enter the information about the partner's capital account from the partner's federal Schedule K-1. Check the appropriate box indicating which method was used to determine the partner's capital account. If tax basis was used, the Wisconsin amounts may be different than the federal amounts. For example, the basis of property contributed to the partnership may have been different for Wisconsin and federal purposes, or the current year increase (decrease) may differ if a federal provision is excluded from the definition of "Internal Revenue Code" for Wisconsin purposes.

If the amounts in item L represent tax basis, submit a schedule describing any differences between the Wisconsin and federal tax basis.

■ **Item M.** If the partner is an individual, enter the partner's state of residence (domicile). If the partner's state of residence changed during the partnership's taxable year, indicate all states involved. If the partner moved into or out of Wisconsin during the partnership's taxable year and the partnership has activities in more than one state, the partner's Wisconsin share of the distributive items will be affected. See the instructions below for more information.

■ **Item N.** If the partner is a nonresident individual or part-year Wisconsin resident individual during the partnership's taxable year and the partnership is a unitary, multistate partnership using apportionment, complete Form 4A-1, *Wisconsin Apportionment Data for Single Factor Formulas*, or Form 4A-2, *Wisconsin Apportionment Data for Multiple Factor Formulas*. Enter the partnership's apportionment percentage from Form 4A-1 or Form 4A-2, as appropriate.

■ **Item O.** Check this box only if the partner is a nonresident individual or part-year Wisconsin resident during the partnership's taxable year and the partnership is a nonunitary, multistate partnership using the separate accounting method. Prepare and submit a schedule, similar to Form 4C, that shows the allocation of the amount under Wisconsin law in column d of each applicable partnership



item reported on Form 3, Schedule 3K, to Wisconsin and outside Wisconsin and the basis of such allocation.

■ **Item P.** Check this box if the partner is a nonresident who filed Form PW-2 to claim exemption from pass-through entity withholding. Check this box only if Form PW-2, Part 2 indicates it was approved by the Department. You must keep a copy of the approved Form PW-2, Part 2 on file to substantiate the withholding exemption. However, the partnership generally must still report that partner on Form PW-1 to disclose that the withholding exemption was claimed. See the Form PW-1 instructions for further details.

■ **Item Q.** If the partnership ceased to exist or withdrew from Wisconsin or if the partner terminated his, her, or its interest in the partnership during the taxable year, check the “Final 3K-1” box. To correct an error on a Schedule 3K-1 already filed, file an amended Schedule 3K-1 and check the “Amended 3K-1” box.

### Schedule 3K-1, Columns (a) Through (e)

**Column (a) – Distributive 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 partner’s share of the amount from Wisconsin Schedule 3K, column b, and should agree with the amount for that item reported on the partner’s federal Schedule K-1.

**Column (c) – Adjustment.** The adjustment is the partner’s share of the amount from Wisconsin Schedule 3K, column c. On a separate schedule you submit with Schedule 3K-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 partners must account for this difference on Wisconsin Schedule I.

**Column (d) – Amount Under Wisconsin Law.** The amount under Wisconsin law is the partner’s share of the amount from Wisconsin Schedule 3K, column d. This is the amount used in computing Wisconsin income by a full-year resident of Wisconsin or a corporation or another partnership that is a partner.

**Column (e) – Wisconsin source amount.** Fill in this column only for a nonresident individual or part-year Wisconsin resident individual. The Wisconsin source amount is the portion of the partner’s amount in column d that is attributable to Wisconsin. If the partnership is doing business in and outside Wisconsin, this generally will be the

amount from column d multiplied by the partnership’s apportionment percentage from item N.

**CAUTION:** Do not fill in column e for a partner who is a corporation, another partnership, or a full-year Wisconsin resident individual, estate, or trust.

### Partners That Are Corporations or Other Partnerships

For partners that are corporations or other partnerships, the amount in Schedule 3K-1, columns c and d should equal the amounts in Schedule 3K, columns c and d, multiplied by the partner’s profit and loss sharing percentage. The amount in column d for each item is the amount determined under Wisconsin law *before* apportionment or separate accounting. *Do not fill in column e.*

### Partners That Are Full-Year Wisconsin Resident Individuals, Estates, and Trusts

The amount in Schedule 3K-1, columns c and d should equal the amounts in Schedule 3K, columns c and d, multiplied by the partner’s profit and loss sharing percentage. All partnership income of full-year Wisconsin residents is taxable regardless of the situs of the partnership or the nature of the income from the partnership, such as business income, service income, intangible income, or professional income, unless otherwise exempt (such as United States government interest). This applies to both general partners and limited partners. *Do not fill in column e.*

### Partners That Are Nonresident Individuals, Estates, and Trusts

The amount in Schedule 3K-1, columns c and d should equal the amounts in Schedule 3K, columns c and d, multiplied by the partner’s profit and loss sharing percentage. The partner uses the information from Schedule 3K-1, column d, to calculate the Wisconsin basis in the partnership. However, in column e, you will need to fill in the Wisconsin source amount of the amount in column d.

If the partnership’s entire income is derived from business transacted or property located in Wisconsin, enter the amount from column d in column e. In this case, the entire amount in column d is the Wisconsin source amount.

However, if the partnership derives income from business transacted or property located in and outside Wisconsin, a nonresident individual partner’s Wisconsin source amount in column e is determined as explained below.

**Share of Income Apportioned or Allocated to Wisconsin.** A nonresident individual’s share of the partnership’s income derived from the following items is taxable by Wisconsin:

- Business transacted in Wisconsin.
- Services performed in Wisconsin.
- Real or tangible personal property located in Wisconsin.

Further, business income is taxable whether or not the individual partner conducts business in Wisconsin.

The nonresident individual partner's Wisconsin source amount of each of these items is the amount from column d that is attributable to Wisconsin based on apportionment or separate accounting, as appropriate.

If the partnership is a unitary, multistate business, compute the nonresident partner's amount in column e of each of these items by multiplying the amount in column d by the apportionment percentage from item N. If the partnership has nonapportionable income (loss) on Form 4N, line 14, compute the nonresident partner's amount in column e of any affected item by multiplying the amount of the nonapportionable item from column d, that is attributed to Wisconsin on Form 4N by the partner's proportionate share.

If the partnership is a nonunitary, multistate business, compute the Wisconsin source amount in column e of each item by multiplying the amount from Schedule 3K-1, column d, that is allocated to Wisconsin on a schedule similar to Form 4C by the nonresident partner's proportionate share.

**Personal Services Performed in Wisconsin.** Partnership income derived from personal services, including professional services, is taxable to a nonresident partner only if the nonresident partner personally performs services in Wisconsin. The amount of personal service income attributable to the nonresident partner's services performed in Wisconsin is taxable.

If the partnership derives its income from personal services, a nonresident partner's Wisconsin source amount in column e is equal to the value of the services he or she personally performed in Wisconsin. If the nonresident partner didn't personally perform any services in Wisconsin, the Wisconsin source amount in column e for that partner is zero.

**Examples.** The Wisconsin source amount of column d is determined equally for general partners and limited partners. The following examples illustrate the rules described above:

*Example 1.* Two nonresident individuals are partners of a partnership that does business only in Wisconsin. Both nonresidents are taxed on their entire share of the partnership income for Wisconsin income tax purposes.

*Example 2.* A nonresident is one of two equal partners of a partnership that does business in Wisconsin and Illinois. The partnership derives 40% of its income from business activities in Wisconsin and 60% from business activities in Illinois. The Wisconsin resident partner operates the Wisconsin business. The nonresident partner operates the Illinois business. The Wisconsin resident is taxed on one-half of the total partnership income for Wisconsin income tax purposes. The nonresident is taxed on one-half of the 40% of the partnership income attributable to business activities in Wisconsin.

*Example 3.* A nonresident is a limited partner, with a 1% interest in partnership profits, of a partnership that derives income from real estate located in Wisconsin and in other states. The nonresident limited partner is taxed on 1% of the partnership income attributable to the real estate located in Wisconsin.

*Example 4.* A nonresident is a partner, with a 10% interest in partnership profits, of a certified public accounting firm that operates in and outside Wisconsin. One-fourth of the partnership's income is attributable to professional services performed in Wisconsin and three-fourths is attributable to professional services performed in other states. The nonresident partner doesn't personally perform any services in Wisconsin. The nonresident isn't subject to Wisconsin income tax on his or her proportionate share of the partnership income earned in Wisconsin.

**Income Not Sourced to Wisconsin.** Intangible income, such as interest and dividends, passed through to a nonresident partner who is an individual generally isn't taxable by Wisconsin. Gains and losses resulting from sales of stocks, bonds, or other intangibles which are passed through to nonresident partners also aren't taxable by Wisconsin. Thus, for line 5 (Interest Income) and line 6 (Ordinary Dividends), the Wisconsin source amount to report in column e is zero. For line 18a (Tax-Exempt Interest Income), do not fill in column e.

**CAUTION:** Regardless of any provision in the partnership agreement, a nonresident partner must limit his or her non-Wisconsin income to the same percentage that the partnership's non-Wisconsin income is to all its income. A nonresident partner also must limit his or her Wisconsin losses or deductions to the same percentage that the partnership's Wisconsin losses or deductions are to all its losses or deductions. The characterization in a partnership agreement of payments to nonresident partners as salary, or as interest for the use of capital, can't affect the determination of whether such payments are derived from Wisconsin sources.

**Itemized Deduction Amounts.** For lines 13 (Other Deductions) and 20 (Other Information), if these amounts are allowable in computing a nonresident individual's Wisconsin

sin itemized deduction credit, enter the amount from column d in column e, even if the partnership derives income from business transacted or property located in and outside Wisconsin. For these items, you do not need to determine the Wisconsin source amount.

However, for amounts on lines 13 and 20 that are adjustments to Wisconsin income instead of deductions used in figuring the itemized deduction credit, determine the amount of column d that is sourced to Wisconsin as explained above, and enter the result in column e.

### Partners That Are Part-Year Wisconsin Resident Individuals, Estates, and Trusts

The amount in Schedule 3K-1, columns c and d should equal the amounts in Schedule 3K, columns c and d, multiplied by the partner's profit and loss sharing percentage. The partner uses the information from Schedule 3K-1, column d, to calculate the Wisconsin basis in the partnership. However, in column e, you will need to fill in the Wisconsin source amount of the amount in column d.

For individuals who are part-year residents of Wisconsin, Wisconsin source income includes:

- All partnership income or loss, regardless of where it is earned or incurred, while they were residents of Wisconsin, and
- All partnership income or loss derived from business transacted in Wisconsin, personal services they personally performed in Wisconsin, or real or tangible personal property located in Wisconsin while they were nonresidents of Wisconsin.

If the partnership's entire income is derived from business transacted or property located in Wisconsin, enter the amount from column d in column e.

If the partnership derives income from activities in and outside Wisconsin, a part-year resident partner computes the Wisconsin source amount in column e of each item in two parts: one for the portion of the partnership's taxable year that the partner was a resident of Wisconsin and one for the portion of the partnership's taxable year that the partner 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 periods during which the partner was a resident or nonresident based on the number of days during the partnership's taxable year that the partner was a resident or nonresident of Wisconsin.

The partner's share of an item for each period (resident or nonresident) is figured in the same manner as that of full-year residents and nonresidents, respectively.

**Schedule 3K-1, Line 10b** – 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.

### Credits Reportable on Schedule 3K-1, Line 15

■ **Line 15a through 15u.** Compute the credits in lines 15a through 15u in the same manner for partners who are full-year, part-year, or nonresidents of Wisconsin. For part-year and nonresident partners, also enter the allowable credits in column e. For each credit, enter the partner's proportionate or specially allocated share of the amount on Schedule 3K. (**Note:** Only the early stage seed investment credit may be specially allocated. See the Schedule VC instructions for details.)

■ **Line 15v. Credit for Tax Paid to Other States** – Complete this line only for full-year Wisconsin resident partners and part-year Wisconsin resident partners. Enter zero for partners who are nonresidents of Wisconsin or corporations.

For a full-year resident, enter in column d the partner's proportionate share of the tax credits on Schedule 3K, line 15v. For a part-year resident, enter in column d the amount computed by multiplying the credit on Schedule 3K, line 15v, by the partner's profit and loss percentage, multiplied by the ratio of days that the partner was a resident of Wisconsin during the partnership's taxable year to the total days in the partnership's taxable year. Enter the result in column e.

■ **Line 15w. Wisconsin Tax Withheld** – If the partnership was required to file Form PW-1 to withhold tax on behalf of its nonresident partners, enter in column d and column e the tax withholding allocated to the partner.

### Schedule 3K-1, Lines 18 through 22

■ **Lines 18a Through 18c.** Enter the partner's proportionate share of the federal amount, adjustment, and amount determined under Wisconsin law from Schedule 3K for each of these items. Do not fill in column e.

If the partner is a corporation or another partnership, identify the sources of tax-exempt income for Wisconsin. This income may be includable in taxable income if passed through to a corporation subject to the franchise tax.

■ **Line 19. Distributions** – Enter the distributions of money and property made to each partner. Do not fill in column e.

■ **Line 20. Other Information** – Complete as necessary. Include the federal amount, adjustment, amount determined under Wisconsin law, and Wisconsin source amount for each item when applicable. Prepare and submit additional schedules if more space is needed. Include the following items on line 20:

- The amount of interest income from United States government obligations that is included on Schedule 3K-1, line 5, column d (column e for nonresidents and part-year residents of Wisconsin).
- Information on the sale, exchange, or other disposition of property for which the section 179 expense deduction was claimed.
- If the partnership is engaged in both farming and some other business activity, indicate on the Schedules 3K-1 of noncorporate partners the portion of each of the share items that is attributable to the farm operations. The partners use this information in applying the farm loss limitations.
- Any information needed by a partner to determine why the Wisconsin amount of any item differs from the federal amount.

**Note:** Partnerships whose Wisconsin partners may qualify for farmland preservation credit or farmland tax relief credit should provide a copy of the farmland property tax bill with the Schedule 3K-1 given to each Wisconsin partner. It isn't necessary for the partnership to submit the property tax bill with the Schedules 3K-1 sent to the Department. Partners will compute their allowable credits based on their proportionate shares of the partnership's property taxes. For additional information about farmland preservation credit, see the Wisconsin Schedule FC instructions. See the instructions for Wisconsin Form 1, INPR, 4, or 5 for details on the farmland tax relief credit. If the partnership 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 21a and 21b. Related Entity Expenses** – Enter in column d the partner's proportionate share of the amounts from Schedule 3K.

■ **Line 22. Gross Income** – Enter the partner's share of the partnership's gross income that is reportable to Wisconsin. Gross income includes:

- The partner's proportionate share of the total amount received from all activities, before deducting the cost of goods sold or any other expenses.
- The partner's proportionate share of gross receipts from trade or business activities, gross rents and royalties, in-

terest and dividends, the gross sales price of assets, and all other gross receipts.

- The partner's share of guaranteed payments taxable by Wisconsin.
- If the partnership is a member of one or more other pass-through entities, the partner's share of gross income attributable to those other pass-through entities.

Enter the partner's share of the partnership's gross income in column d. For part-year and nonresident partners, enter the partner's share of the gross receipts that are attributable to Wisconsin in column e.

### Partner's Share of Apportionment Factors

For a corporation or another partnership that is a partner, enter on lines 23 through 25 the partner's proportionate share of the partnership's apportionment factors from Form 4A-1 or Form 4A-2 (if applicable). If the partnership only has one apportionment factor (for example, the single sales factor apportionment formula), leave lines 24 and 25 blank.

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For an example of how to complete Schedule 3K-1 for Wisconsin resident individual partners, nonresident individual partners, and part-year Wisconsin resident individual partners, see page 20.

## Example of Schedule 3K-1 for Individual Partners

ABC Partnership is a calendar year partnership whose income is attributable 70% to a business located in Wisconsin. There are three individual partners, each with a one-third interest in the profits and losses of the partnership. Partner A was a Wisconsin resident during all of 2009. Partner B was an Illinois resident during all of 2009. Partner C was a resident of Wisconsin until moving to Florida on April 1, 2009. Therefore, Partner C was a Wisconsin resident for 90 days (January 1 through March 31) and a nonresident for 275 days (April 1 through December 31).

Schedule 3K for the year ending December 31, 2009, shows the following amounts on the lines indicated:

### Schedule 3K

(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amt. under WI law
1 Ordinary Income	\$9,000	\$600	\$9,600
5 Interest Income	700	300	1,000
18a Tax-exempt interest income	300	(300)	0
20 U.S. Government interest included on line 5, column d			100

The Partners' Schedules 3K-1 would show the following:

### Partner A's Schedule 3K-1

(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under WI law	(e) WI Source Amount
1 Ordinary Income	\$3,000	\$200	\$3,200	
5 Interest Income	233	100	333	
18a Tax-exempt Interest Income	100	(100)	0	
20 U.S. Government interest included on line 5, col. d			33	

### Partner B's Schedule 3K-1

(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under WI law	(e) WI Source Amount
1 Ordinary Income	\$3,000	\$200	\$3,200	\$2,240
5 Interest Income	233	100	333	0
18a Tax-exempt Interest Income	100	(100)	0	
20 U.S. Government interest included on line 5, col. d			33	0

### Partner C's Schedule 3K-1

(a) Distributive share items	(b) Federal amount	(c) Adjustment	(d) Amount under WI law	(e) WI Source Amount
1 Ordinary Income	\$3,000	\$200	\$3,200	\$2,477
5 Interest Income	233	100	333	82
18a Tax-exempt Interest Income	100	(100)	0	
20 U.S. Government interest included on line 5, col. d			33	8

Following are explanations of the Schedule 3K-1 amounts:

**Partner A.** The amounts in column d are computed by multiplying the amounts from Schedule 3K by Partner A's 33.33% profit and loss percentage. Column e is blank since Partner A is a full-year Wisconsin resident.

**Partner B.** The amounts in columns b, c, and d are computed by multiplying the amounts from Schedule 3K by Partner B's 33.33% profit and loss percentage. For ordinary income, compute the Wisconsin source amount for column e by multiplying the amount under Wisconsin law from column d by ABC Partnership's 70% apportionment percentage. Since Partner B is a nonresident, the Wisconsin source amount of the interest income on line 5, column e, is zero. Do not fill in line 18a, column e.

**Partner C.** The amounts in columns b, c, and d are computed by multiplying the amounts from Schedule 3K by Partner C's 33.33% profit and loss percentage. Compute the Wisconsin source amounts in column e in two parts: one for the period that Partner C was a Wisconsin resident and one for the period that Partner C was a nonresident. Do not fill in line 18a, column e. The computations of Partner C's amounts in column e are shown below:

#### Partner C's Line 1: Ordinary Income

Period of residence	$\$3,200 \times 90/365$	=	\$789
Period of nonresidence	$\$3,200 \times .7 \times 275/365$	=	\$1,688
Total		=	\$2,477

#### Partner C's Line 5: Interest Income

Period of residence	$\$333 \times 90/365$	=	\$82
Period of nonresidence		=	-0-
Total		=	\$82

#### Partner C's U.S. Government Interest for Line 20

Period of residence	$\$100 \times .3333 \times 90/365$	=	\$8
Period of nonresidence		=	-0-
Total		=	\$8

## Determining the Wisconsin Income of Multistate Partnerships

A partnership that does business in Wisconsin and at least one other state or foreign country must determine the amount of income attributable to Wisconsin for purposes of figuring (a) its recycling surcharge and (b) the share of partnership income taxable to partners that are nonresident or part-year resident individuals or fiduciaries. The partnership must use either the apportionment method or the separate accounting method to allocate a portion of its income to Wisconsin.

### Who Must Use Apportionment

Under the apportionment method, a partnership shows all income and deductions for the partnership as a whole and then assigns a part to Wisconsin according to a formula that determines Wisconsin net income. A partnership engaged in business in and outside Wisconsin is required to report a portion of its total company net income to Wisconsin using the apportionment method if its Wisconsin operations are a part of a unitary business, unless the Department gives permission to use separate accounting.

A unitary business is one that operates as a unit and can't be segregated into independently operating divisions or branches. The operations are integrated, and each division or branch is dependent upon or contributory to the operation of the business as a whole. It isn't necessary that each division or branch operating in Wisconsin contribute to the activities of all divisions or branches outside Wisconsin.

To use the apportionment method, a partnership must have business activity sufficient to create nexus in Wisconsin and at least one other state or foreign country.

"Nexus" means that a partnership's business activity is of such a degree that the state or foreign country has jurisdiction to impose an income tax or franchise tax measured by net income. Under Public Law 86-272, a state can't impose an income tax or franchise tax based on net income on a partnership selling tangible personal property if the partnership's only activity in the state is the solicitation of orders, which orders are approved outside the state and are filled by delivery from a point outside the state.

### What Is the Apportionment Percentage

For unitary, multistate businesses (except direct air carriers, motor carriers, railroads, sleeping car companies, pipeline companies, financial institutions, brokers-dealers, investment advisers, investment companies, underwriters, and telecommunications companies whose incomes are apportioned by special rules of the Department), the apportionment

percentage is determined by the ratio of Wisconsin sales to total company (partnership) sales.

For most companies, the apportionment percentage is computed on Form 4A-1. Refer to the Wisconsin Form 4A-1 instructions for calculating the Wisconsin apportionment percentage. However, direct air carriers, motor carriers, railroads, sleeping car companies, pipeline companies, financial institutions, brokers-dealers, investment advisers, investment companies, underwriters, and telecommunications companies should see Form 4A-2 and its instructions.

### What Is Nonapportionable Income

Nonapportionable income is that income which is allocable directly to a particular state. It includes income or loss derived from the sale of nonbusiness real or tangible personal property or from rentals and royalties from nonbusiness real or tangible personal property. This income is assigned to the state where the property is located.

All income that is realized from the sale of or purchase and subsequent sale or redemption of lottery prizes if the winning tickets were originally bought in Wisconsin shall be allocated to Wisconsin.

Total nonapportionable income (loss) is removed from total company net income before the apportionment percentage is applied. The Wisconsin nonapportionable income (loss) is then combined with the Wisconsin apportionable income to arrive at Wisconsin net income.

### Separate Accounting

A partnership engaged in a nonunitary business in and outside Wisconsin must determine the amount of income attributable to Wisconsin by separate accounting. A nonunitary business is one in which the operations in Wisconsin aren't dependent upon or contributory to the operations outside Wisconsin. Under separate accounting, the partnership must keep separate records of the sales, cost of sales, and expenses for the Wisconsin business.

A unitary business may use separate accounting only with the approval of the Department. An application for such approval must set forth, in detail, the reasons why separate accounting will more clearly reflect the partnership's Wisconsin net income. It should be mailed to the Wisconsin Department of Revenue, Mail Stop 5-144, P.O. Box 8906, Madison, WI 53708-8906 before the end of the taxable year for which the use of separate accounting is desired.

Since a partnership does not compute its income in the same manner as a corporation, a partnership cannot use Form 4C to determine its income attributable to Wisconsin. Instead, a partnership using separate accounting should prepare a 5-column schedule that provides the following information: (a) a listing of all of the distributive share items from Wisconsin Schedule 3K, column a, and any supplemental schedules, (b) the total amount from Wisconsin Schedule 3K, column d, for each of the share items, (c) the amount from column b attributable to Wisconsin, (d) the amount from column b attributable to other states, and (e) the basis for the allocation.

The schedule should also include a detailed explanation of how income and expenses were allocated in and outside Wisconsin. For example, if the allocation is based on actual expenses, write "Actual" in column e. If the allocation is based on a percentage of sales at each location, enter the percentage in column e and provide details on how the percentage was computed.