NEW WISCONSIN TAX LAWS

This supplement to the April issue of the Wisconsin Tax Bulletin contains a brief description of the tax provisions in Senate Bill 1 (Chapter 1, Laws of 1979, published February 27, 1979) and Senate Bill 84 (Chapter 2, Laws of 1979, published February 27, 1979) which were "enacted" in 1979.

All of the provisions described below are contained in Senate Bill 1, except item I.A which is in Senate Bill 84.

I. INCOME TAX AND WITHHOLDING

A. Separate Check for 1978 Special Property Tax/Rent Credit. Persons who claim the 1978 Special Property Tax/Rent Credit on their income tax return, homestead credit claim or Schedule PC by the due date of December 31, 1979, will automatically receive, in addition to the credit on such return or schedules, a separate check equal to the amount of such credit (or such amount as adjusted by the department). The mailing of checks will begin approximately July 1, 1979 and will continue thereafter until all original 1978 Special Property Tax/Rent Credit claims are processed. Most taxpayers who claimed the credit on a Form 1, 1A, Schedule H or Schedule PC which was filed on or before April 15, 1979, should receive this separate check in July or August of 1979.

As an example, if a taxpayer claimed a 1978 Special Property Tax/Rent Credit of $100 on his or her 1978 Wisconsin income tax return, such taxpayer will, in addition to the $100 credit on the 1978 tax return, receive a separate check for $100 sometime after July 1, 1979.

B. 8-Week Income Tax Withholding Moratorium and 16% Special Income Tax Credit (Maximum $900). Unless an employe elects otherwise, an employer may not withhold Wisconsin income tax from wages of an employe for any complete payroll period starting during the period May 1, 1979 through June 26, 1979. The moratorium on withholding may not exceed the following number of payroll periods:

1) 55 daily
2) 8 weekly
3) 4 biweekly or semi-monthly
4) 2 monthly

An employe may request the employer to continue withholding state income tax during the moratorium period.

16% Special Income Tax Credit. For the 1979 taxable year only, a person's Wisconsin net income tax liability, prior to application of any tax credit other than the personal exemption credits and the 12% property tax/rent credit (see Item I.E.), will be reduced by a 16% nonrefundable credit (subject to a maximum credit of $900). Each spouse must separately compute and deduct his or her own 16% credit. Thus, if a husband and wife have 1979 taxable income of $20,000 and $15,000, respectively, the credit for each is computed as follows:

	Husband	Wife
1. Net taxable income	$20,000.00	$15,000.00
2. Gross tax (1979 rates & brackets)	1,430.00	975.00
3. Less: Personal exemptions	(20.00)	(20.00)
4. Subtotal	$ 1,410.00	$ 955.00
5. Less: 12% Property Tax/Rent Credit (assume property tax of $1250 paid in 1979-see Item I.E.)	(150.00)	-0-
6. Subtotal	$ 1,260.00	$ 955.00
7. Less: 16% Special Income Tax Credit (16% of Line 6 above)	(201.60)	(152.80)
8. NET TAX	$ 1,058.40	$ 802.20

On March 15, 1979 a notice will be sent to all employers registered for withholding. This notice will explain how the 8-week withholding moratorium applies to employes, the payroll periods affected, whether withholding returns must be filed for this 8-week period, what an employer should do if the employe requests that withholding continue during the 8-week moratorium period, and other related information. In addition, those persons who file a declaration of estimated tax for the first quarter of 1979 will receive in June, 1979 a notice explaining how their June and September, 1979 and January, 1980 declaration payments will be affected by this provision. The notice will be enclosed with the 3 declaration payment vouchers mailed in early June, 1979.

C. Withholding a Lesser Amount from an Employe's Wages (effective April 1, 1979). If an employe determines that the amount that will be withheld from his or her wages per the withholding tables will be **more** than the employe's estimated tax liability for the year, the employe and employer may agree to withhold a lesser amount than indicated in the withholding tables. This situation could occur in instances such as when the employe has unusually high itemized deductions or is eligible for homestead credit.

This agreement between the employe and employer must be renewed each year and must be in writing on a Department of Revenue form. The employe must send a copy of the agreement to the Department within 10 days after it is filed with the employer. If the employe fails to notify the Department within the required 10 days, he or she shall be subject to a penalty of $10.

For calendar year taxpayers, the agreement expires on April 30 of the following year, or 4 months following the close of a person's fiscal year (e.g., agreement for 1979 calendar year expires April 30, 1980).

If the Department determines that an agreement would result in an insufficient amount of tax being withheld, the Department may void the agreement by notification to the employer and employe.

Civil and criminal penalties are provided for employes who enter into this agreement with an intent to defeat or evade the proper withholding of tax.

(Note: This provision is separate and apart from the 8-week withholding moratorium (Item I.B). An employe does not have to enter into an agreement in order to have no withholding for those payroll periods covered by the 8-week withholding moratorium period.

D. Eliminate Taxes as an Itemized Deduction (effective for 1979 taxable year and thereafter). Income, real estate, gasoline, sales and personal property taxes allowable as an itemized deduction under the Internal Revenue Code will no longer be allowed as an itemized deduction for Wisconsin tax purposes.

E. **12% Property Tax/Rent Credit** (effective for 1979 taxable year and thereafter). A credit equal to 12% of property taxes paid during the taxable year on nonbusiness property and 12% of rent paid during the taxable year on the person's primary residence may be claimed as a non-refundable credit against Wisconsin income taxes due after personal exemptions, but before any other credits. (Note: This credit is subtracted from the tax due before deducting the 1979 Special Income Tax Credit (see Item I.B. for example) and any other credits.)

1. **Who May Claim Credit.** To qualify for the 12% property tax/rent credit, a person must have paid rent during the taxable year for the use of the person's primary residence, or paid property taxes during the taxable year on property **not** used in a trade or business. Persons living in housing exempt from property taxes for the entire taxable year, except housing for which payments in lieu of taxes are made under s. 66.40 (22), do not qualify for the credit.

Nonresidents are not eligible for this credit.

2. **Renters.** A credit equal to 12% of "rent constituting property taxes" (see definition) paid during the taxable year will be allowed. The primary residence of the claimant does not have to be in Wisconsin.

3. **Property Owners.** Property owners will receive a credit equal to 12% of their "property taxes" paid during the taxable year (see definition). The property does not have to be located in Wisconsin.

4. **Living Part of Year in Taxable Housing.** If a person lived in housing subject to property taxes under Chapter 70, Wis. Stats., for a part of the taxable year, "property taxes" or "rent constituting property taxes" shall be based on the period during which the person lived in housing subject to property taxes.

5. **Proration by Part-Year Residents.** Part-year residents shall reduce their "property taxes" and "rent constituting property taxes" by 1/12 for any full month in which they were not domiciled in Wisconsin. Any month the person was domiciled in Wisconsin for less than 15 days shall be considered a full month.

6. **Deadline for Filing.** The credit must be claimed on a Wisconsin income tax return within 4 years of the due date of the person's income tax return (for example, a person claiming the 12% credit for property taxes paid in 1979 must claim such credit within 4 years of the due date of his or her 1979 tax return).

7. **Married Persons.** The total amount of the credit may be divided between both spouses in any manner they choose.

8. **Definitions Relating to 12% Property Tax/Rent Credit.** **"Property taxes"** means real and personal property taxes, exclusive of special assessments, delinquent interest and charges for service, paid by a claimant during the taxable year for which credit under this section is claimed, less any property taxes paid which are properly includible as a trade or business expense under section 162 of the Internal Revenue Code and less the tax credit, if any, afforded in respect of the property by ss. 79.10 (3) and 79.17 (3m). If the property on which the taxes were paid is owned by 2 or more persons or entities as joint tenants or tenants in common, "property taxes" is that part of property taxes paid, reduced by any tax credit under ss. 79.10 (3) and 79.17 (3m), as reflects the ownership percentage of the claimant. If property is sold during the taxable year the "property taxes" for the seller and buyer shall be the amount of the tax prorated to each in the closing agreement pertaining to the sale or, if not so provided for in the closing agreement, the tax shall be prorated between the seller and buyer in proportion to months of their respective ownership. "Property taxes" includes monthly parking permit fees collected under s. 66.058 (3) (c).

"Rent constituting property taxes" means 25% of rent if heat is not included, or 20% of rent if heat is included, paid during the taxable year for which credit is claimed under this section, at armslength, for the use of a principal dwelling, excluding any payment for domestic, food, medical or other services which are unrelated to use of the dwelling as housing. "Rent" includes space rental paid to a landlord for parking a mobile home. Rent shall be proportioned among the occupants of a principal dwelling according to their respective contribution to the total amount of rent paid.

"Principal dwelling" means any dwelling used as a primary residence by the claimant, including a part of a multidwelling or multipurpose building.

F. Lower Tax Rates, Widen and Index Tax Brackets. Rates and Brackets. New income tax brackets and income tax rates for the 1979 taxable year and thereafter will be as follows (without indexing of brackets):

Income In Excess Of	but	Not More Than	Tax Rates
$ 0	—	$ 3,000	3.4%
3,000	—	6,000	5.2%
6,000	—	9,000	7.0%
9,000	—	12,000	8.2%
12,000	—	15,000	8.7%
15,000	—	20,000	9.1%
20,000	—	40,000	9.5%
40,000	—		10.0%

Indexing. Beginning with the 1980 taxable year and thereafter, the income tax brackets will be increased by the percentage that the U.S. Consumer Price Index for all urban consumers, U.S. city average, for June of the current year exceeds such index for June of the preceding year. In no case shall the amount of increase be more than 10%. If the consumer price index declines, the dollar amounts will be reduced, but not below the levels in effect for the taxable year 1979. A change in brackets will be rounded to the nearest $100.

G. New Wisconsin Standard Deduction. For the 1979 taxable year and thereafter, the 15% standard deduction will be eliminated. It will be replaced by a flat $2,000 standard deduction for single persons and $2,900 for married persons for the 1979 taxable year. For the 1980 taxable year and thereafter, the Wisconsin standard deduction will be $2,300 for single persons and $3,400 for married persons.

For the 1979 taxable year and thereafter, the following provisions also apply:

1. The low-income allowance and additional deduction for dependents will be retained. However, the low-income allowance will not be less than the standard deduction.
2. Married persons may split the standard deduction and low-income allowance in any manner they choose.
3. Part-year residents and nonresidents will prorate the standard deduction and low-income allowance based on the percentage of Wisconsin total income to federal adjusted gross income.
4. If a person with unearned income can be claimed as a dependent by another taxpayer, such person's standard deduction shall not exceed his or her earned income.

H. Nonresidents and Part-Year Residents Determine Additional Deduction for Dependents Based Upon Federal Income. Nonresidents and part-year residents will determine their amount of additional deduction for dependents based upon their total federal adjusted gross income, rather than their Wisconsin total income as for 1978.

I. Exclude $100,000 of Gain on Sale of Principal Residence if Taxpayer 55 years or Older (effective for sales in the 1979 taxable year and thereafter). The first $100,000 of gain on sale or exchange of a principal residence, as defined under section 121 of the December 31, 1978 Internal Revenue Code, may be excluded from Wisconsin taxable income, if the seller was 55 years of age or older at the end of the taxable year. The person must also have owned and used the residence as his or her principal residence for a total of at least three years during the five year period ending on the date of the sale of the residence. This exclusion can be made only once in a person's lifetime.

J. Tax Unemployment Compensation Benefits Similar to Federal (effective for 1979 taxable year and thereafter). Unemployment compensation benefits which are taxable under section 85 of the Internal Revenue Code, as created by section 112 of Public Law 95-600, will also be taxable for Wisconsin purposes. For purposes of determining the amount of taxable unemployment compensation to be included in Wisconsin adjusted gross income, married persons may elect to combine their federal adjusted gross income and compute the includible amount as persons filing a joint return. However, each spouse shall include in Wisconsin adjusted gross income his or her share of the taxable unemployment compensation.

Section 85 of the Internal Revenue Code provides that if the unemployment benefit payments for the year, together with the recipient's adjusted gross income (excluding the unemployment benefit payments and disability benefit payments excludable under Code Sec. 105 (d), exceed a base amount, the recipient must include in gross income an amount equal to the lesser of (1) one-half of the amount of the excess of the sum of the recipient's unemployment benefit payments and adjusted gross income over the base amount, or (2) the amount of the unemployment compensation payments.

The base amount for the above purposes is $20,000 for other than married taxpayers. For married taxpayers, the base amount is $25,000 if a joint federal return is filed or zero if the married taxpayer does not live apart from his or her spouse and does not file a joint return for the year.

K. Taxation of Lump-Sum Distributions from Employe Benefit Plans (effective for 1979 taxable year and thereafter). The capital gain portion of a lump-sum distribution from an employe benefit plan that is reported on federal Form 4972 (special 10-year averaging method), must be added to Wisconsin income as an add modification. Since this income is not entered on federal Form 1040, but rather on Form 4972, it is never included in federal adjusted gross income and would not be included in Wisconsin taxable income unless added as a modification.

L. Taxation of Trusts Subject to Wisconsin's Jurisdiction (effective for 1979 taxable year and thereafter). When a trust is established after the death of a person who was a Wisconsin resident and supervisory powers over the trust are retained by Wisconsin's courts, Wisconsin income tax will apply to the trust's income, regardless of whether the trustee and trust assets are located in or outside of Wisconsin. This bill also requires notice to the Department of any petition to transfer jurisdiction over a trust.

M. Two-Year Claim for Refund Applies to Tax Credits (effective for adjustments made on or after February 28, 1979). Current law provides that as an alternative to appealing an office audit assessment of income tax, a taxpayer may pay the tax assessed and then file a claim for refund of the amount paid within 2 years of the date such assessment notice was issued by the Department. This two-year claim for refund provision did not apply to tax credits. Under this new law, the two-year claim for refund will also apply to tax credits, including the 1978 special property tax/rent credit and Chapter 71 tax credits, including homestead credit, farmland preservation credit and alternative energy credit.

N. Refund Checks from Peoples Escrow Fund to Income Tax Filers (effective for 1981 and thereafter). An automatic procedure is established for refunding to taxpayers the amount in the Peoples Escrow Fund when it exceeds a certain level. The Department of Administration will report on the final authorized level of general revenue appropriations for the biennium and the actual general revenue expenditures for the same period. After deducting a reserve amount equal to 2% of the gross general revenue appropriations for that biennium, the remaining amount of unallocated general revenue as determined by the Legislature's Joint Committee on Finance will represent the amount of funds available for distribution under the Peoples Escrow Fund.

In any odd-numbered year, beginning in 1981, in which the amount in the Peoples Escrow Fund for the preceding biennium equals or exceeds $50 million, the Department of Revenue will be required to issue a separate check by December 1 of such year to individuals having a net income tax liability and meeting certain other requirements. Details regarding these requirements will be provided in a future issue of the WTB.

II. CORPORATION FRANCHISE/INCOME TAXES

A. Single-weight of Throwback Sales in Apportionment Formula (effective for 1979 taxable year and thereafter). In the determination of net income attributable to Wisconsin of a corporation doing business in more than one state, current statutes provide for the use of a three factor apportionment formula consisting of the weighted average of the sum of the percentages of Wisconsin property, Wisconsin payroll and Wisconsin sales to total company property, payroll and sales, respectively. The sales factor (percentage) is given a weight of 2 in the formula, while property and payroll are given a weight of 1.

In the computation of the sales factor, sales made by a taxpayer to customers located in another state not having jurisdiction to tax such taxpayer are considered to be Wisconsin sales if the property sold is shipped from storage in Wisconsin to such other state. Such sales are "thrownback" to Wisconsin and as Wisconsin sales (along with other Wisconsin sales) are given a weight of 2 in the apportionment formula.

Senate Bill 1 reduces the effect of such "throwback" sales in the apportionment formula by including only one-half of such sales in the numerator of the sales factor; thereby giving such sales an effective weight of one. For example, assume a Wisconsin manufacturer has total sales for a year of $1,000,000 and $500,000 of such sales are to customers located in Wisconsin. Sales to customers in other states having jurisdiction to tax the manufacturer equal $300,000 and sales to customers in states not having jurisdiction amount to $200,000. The property and payroll factors are 66% and 70% respectively. If the manufacturer's total company net income before apportionment equals $100,000, the manufacturer's Wisconsin apportionment percentage is computed as follows: (comparison of 1978 to 1979 and thereafter)

Computation of Sales Factor

	1978	1979	
(A) Sales with Wisconsin destination	$ 500,000	$ 500,000	
(B) Sales to customers in states not having jurisdiction to tax the manufacturer (throwback sales)	200,000	100,000	(½ of $200,000)
(C) Total Wisconsin sales	$ 700,000	$ 600,000	
(D) Total sales everywhere	$1,000,000	$1,000,000	
Wisconsin sales factor (C÷D)	70%	60%	

Computation of Apportionment Percentage

	1978 %	1978 Weight	1979 %	1979 Weight
Sales Factor	70 × 2 =	140	60 × 2 =	120
Property Factor	66 × 1 =	66	66 × 1 =	66
Payroll Factor	70 × 1 =	70	70 × 1 =	70
Total	4	276	4	256
Apportionment % to Wisconsin		69%		64%

B. Adopt Federal Subchapter S Provisions (effective for 1979 taxable year and thereafter). Small business corporations, which have elected to be taxed for federal purposes as a "Subchapter S" corporation, **will be required** to be taxed in the same manner (as a Subchapter S) for Wisconsin tax purposes.

The addition and subtraction modifications required under prior law have been eliminated for any amounts included or excluded from federal adjusted gross income solely by reason of Subchapter S. Shareholders of Subchapter S corporations will automatically be taxed by Wisconsin on the same income of the corporation as they are federally (except for capital gains and any other difference in Wisconsin and federal laws).

A transitional adjustment is provided to include in a Wisconsin shareholder's Wisconsin taxable income any distribution in the 1979 taxable year and thereafter of accumulated corporate earnings at the end of the 1978 taxable year (the year immediately preceding the first year to which Senate Bill 1 applies). Such accumulated earnings are taxable by Wisconsin as dividends when received, since such earnings were accumulated in years prior to the years to which this bill applies, and thus were not taxed to shareholders by Wisconsin in 1978 or earlier years. The fact that a corporation begins to report under Subchapter S provisions for Wisconsin in 1979 does not change the character of distributions made from pre-1979 earnings. If accumulated earnings of a Subchapter S corporation as of the end of the 1978 taxable year are not taxed when ultimately received by a shareholder, none of such earnings would ever be taxed to shareholders.

A transitional adjustment is also provided for any difference in gain or loss on the disposition of capital stock in a federal Subchapter S corporation due to a difference in Wisconsin and federal bases of such stock.

The corporation is permitted an annual deduction from net income for the amount of distributed and undistributed net income for the year, thus reducing the corporation's net income to zero, if all shareholders (resident and nonresident alike) report their proportionate share of corporate profits. Failure of all shareholders to so report could result in the corporation being taxed on its entire net income, resulting in the taxation of both the corporation and its shareholders.

Nonresident shareholders deriving income from a Subchapter S corporation engaged in business within and without Wisconsin will be taxed by Wisconsin only on the net income of the corporation derived from business transacted and property located in Wisconsin. Resident shareholders of such a corporation will be taxed by Wisconsin on their entire share of corporate net income.

If a corporation receives interest on obligations of a state or local unit of government, or any other net income not subject to federal income taxation but which is subject to Wisconsin taxation, such income will be taxed to the shareholder (both resident and nonresident). Therefore, if a Subchapter S corporation's 1979 federal taxable income is $10,000 but $1,200 of interest earned on Wisconsin bonds is not included in such income (interest on state obligations is not taxable federally), each shareholder is required to include his or her pro rata share of the $1,200 in Wisconsin taxable income in addition to the appropriate share of federal taxable income. Since only the shareholders' pro rata portion of federal taxable income ($10,000) will be included in federal adjusted gross income, an add modification is required for the additional amount taxable to shareholders. (Note: A publication on the Wisconsin tax treatment of Subchapter S Corporations will be available in late 1979.)

C. Corporation Contributions Deductible to Out-of-State Organizations (effective for 1979 taxable year and thereafter). The deduction for contributions by corporations is expanded to include contributions to out-of-state nonprofit religious, charitable, scientific, literary or educational organizations, cemetery corporations and organizations for the prevention of cruelty to children or animals.

Prior law limited the deduction for contributions to such organizations operating in Wisconsin.

III. HOMESTEAD CREDIT

A. Eliminate $600 Reduction of Household Income for Persons Age 65 and Over (effective for claims for 1979 and thereafter). The $600 reduction of household income for those claimants 65 years of age or older or claimants who have a spouse or dependent 65 years of age or older will be eliminated.

B. Increase Maximum Household Income to $14,000 (effective for claims for 1979 and thereafter). The maximum household income limitation will be increased to $14,000. For 1978 claims, the household income limitation was $9,300, or $9,900 if the claimant, spouse or dependent were 65 or over.

C. Increase Maximum Property Taxes From $800 to $1,000 (effective for claims for 1979 and thereafter). The maximum property taxes accrued, or rent constituting property taxes accrued, or both, will be increased from the $800 maximum limit for 1978 claims to $1,000 for 1979 claims and thereafter.

D. Increase From $4,000 to $5,000 the Amount of Income Below Which 80% of Property Taxes is Refunded (effective for claims for 1979 and thereafter). Claimants will receive 80% of property taxes accrued or rent constituting property taxes accrued, or both, if the total household income is $5,000 or less. For 1978 claims, household income could not exceed $4,000 in order for the claimant to receive the maximum 80% benefit.

E. Prorate Property Taxes if Claimant Receives General Relief Equal to or in Excess of Standards in s. 49.19 (11) (a) or Receives AFDC Under s. 49.19; Eliminate Requirement that Person is Not Eligible for Homestead Credit if on AFDC or General Relief at Time of Filing Claim (effective for claims for 1979 and thereafter). For 1978 claims, a person was not eligible for homestead credit if he or she was on general relief or AFDC at the time of filing the 1978 claim. This eligibility requirement will be eliminated for 1979 claims and thereafter.

A person who receives AFDC under s. 49.19 shall reduce property taxes accrued or rent constituting property taxes accrued by 1/12 for each month or portion of a month that the claimant received such assistance. Property taxes accrued or rent constituting property taxes accrued must also be reduced by 1/12 for each month or portion of a month for which the claimant received general relief from any municipality or county equal to or in excess of the standards specified in s. 49.19 (11) (a) in effect on January 1 of the year for which the credit is claimed. (Note: The dollar amount of standards in s. 49.19 (11) (a) will be listed in the 1979 Homestead Credit instructions).

IV. SALES AND USE TAXES

A. Sales and Use Tax Exemption for Fuel and Electricity (effective July 1, 1979 and thereafter). A sales and use tax exemption is provided for the gross receipts from the sale of:

Coal, fuel oil, propane, steam and wood used for fuel sold for residential use. (These sales are exempt all 12 months of the year, beginning July 1, 1979)

Electricity and natural gas sold for residential use during the months of November, December, January, February, March and April (beginning November, 1979).

Electricity sold for use in farming, including agriculture, dairy farming, floriculture and horticulture, during the months of November, December, January, February, March and April (beginning November, 1979). Fuel, including natural gas, sold to farmers for use in farm machines is currently exempt under 77.54 (3).

Electricity or natural gas is considered sold at the time of billing. If the billing is mailed, the date of mailing is considered the time of billing. If a fuel storage tank or a meter provides fuel or electricity for an exempt use and for a use which is not exempt, the percentage of gross receipts that is exempt will qualify for the exemption.

For purposes of this provision, "residential use" means use in a structure or portion of a structure which is a person's permanent residence, but does not include use in transient accommodations (such as hotels, motels) or motor homes, travel trailers or other recreational vehicles.

B. Impose Sales and Use Tax on Occasional Sales of Boats Registered with U.S. Coast Guard (effective February 28, 1979 and thereafter). Under prior law the occasional sales of boats registered with the Department of Natural Resources (DNR) were subject to the sales and use tax, but not boats registered with the U.S. Coast Guard. This provision also taxes boats registered or required to be registered with the U.S. Coast Guard.

C. Clarify Imposition of Use Tax on Taxable Services (effective February 28, 1979 and thereafter). The imposition of the use tax is clarified as it pertains to taxable services. In addition, the law clarifies who is required to file a use tax return and what must be shown on such return. This provision does not change the Department of Revenue's interpretation or policy regarding use tax.

V. INHERITANCE AND GIFT TAX

A. Increase Inheritance Tax Interspousal Exemption from $50,000 to $250,000 (effective for deaths occurring on or after July 1, 1979). The inheritance tax exemption for transfers between spouses is increased from $50,000 to $250,000.

B. Increase Inheritance and Gift Tax Exemptions for Class A Distributees and Donees from $4,000 to $10,000 (effective dates—Inheritance tax: deaths occurring on or after July 1, 1979, Gift tax: gifts made on or after January 1, 1979). Under current law, class A distributees and donees, except spouses and surviving spouses, have a $4,000 exemption for inheritance and gift tax purposes. This provision increases the exemption to $10,000 for both inheritance and gift taxes. Class A distributees and donees include lineal issues (ex., children and grandchildren), lineal ancestors (ex., parents), sons-in-law, daughters-in-law, and adopted or mutually acknowledged children.

C. Repeal Inheritance Tax $10,000 Life Insurance Exemption (effective for insurance payable because of any death occurring on or after July 1, 1979). The inheritance tax $10,000 life insurance exemption to named beneficiaries is repealed.

D. Simplify Inheritance Tax Deduction for Federal Estate Taxes (effective for deaths occurring on or after July 1, 1979). Under prior law, a deduction from the inheritance tax was allowed for federal estate tax paid; however, adjustments to the actual federal estate tax paid were often made and the deduction allowable was less than the total federal estate tax paid. This provision simplifies the inheritance tax deduction for federal estate tax paid by generally allowing a deduction for the full amount. This will eliminate the need for an inheritance tax computation form, Schedule L. An adjustment to the amount will continue to have to be made, however, when an estate is located both in Wisconsin and in another state.

E. Exempt $10,000 of Household Goods and Other Tangible Personal Property from Inheritance Tax (effective for all transfers because of deaths occurring on or after July 1, 1979). Under prior law, the first $2,500 of household furniture, furnishings and appliances was exempt from the Wisconsin inheritance tax. This provision increases the exempt amount to the first $10,000 and broadens the exemption for household furniture, furnishings and appliances to include other tangible personal property, except money.

F. Allow Installment Payments of Inheritance and Estate Taxes when Estate Consists Largely of Interest in Closely Held Business (including farming) (effective for taxes arising from deaths occurring on or after July 1, 1979). Persons with an inheritance or estate tax liability arising from an estate which consists largely of an interest in a closely held business (including farming) may be allowed up to 15 years to pay the tax. At the time the tax is payable, the individual may elect to pay in one of two ways: (a) in a lump sum at any time within 15 years of the decedent's date of death; or (b) in installments over a period of up to 15 years. No election may be made unless it is made by the original due date of the return.

When either delayed payment method is selected, security must be provided to the Department of Revenue to guarantee payment of the taxes (a recorded lien to secure the taxes on real estate and surety bond to secure taxes on personal property). In addition, interest is charged on the delayed tax payments from the due date of the taxes until paid at the rate of 9% per year.