

The individual's tax preferences in Year 1 are \$70,000 (accelerated depreciation on real estate \$20,000, plus depletion \$30,000, plus capital gain deduction \$20,000). Minimum tax for Year 1 is computed as follows (see Tax Release #2 "Minimum Tax Limited by Tax Benefit Rule"):

Gross income	\$ 100,000
Nonpreference deductions for AGI	(50,000)
Medical deduction	(10,000)
Other itemized deductions to 60% of WI AGI computed without regard to tax preferences (60% × (-20,000 + 70,000))	<u>(30,000)</u>
Recomputed income	<u>\$ 10,000</u>
Lesser of total tax preferences or recomputed income	\$ 10,000
Less: 10,000	<u>(10,000)</u>
Subtotal	\$ -0-
1984 rate	× 5%
Minimum tax	<u>\$ -0-</u>

The portion of the individual's net operating loss carryforward to Year 2 that consists of tax preferences is calculated as follows:

Total tax preferences for Year 1	\$ 70,000
Less: \$10,000 base	(10,000)
Less: Tax preferences subject to minimum tax in Year 1	(-0-)
Less: Capital gain deduction	<u>(20,000)</u>
Portion of net operating loss that consists of tax preferences (limited to actual net operating loss)	<u>\$ 20,000</u>

Thus, the entire net operating loss is considered due to tax preferences and may generate minimum tax in future carryforward years.

The individual's tax preferences in Year 2 are \$32,000 (accelerated depreciation on real estate \$10,000, tax preferences in net operating loss deduction \$20,000, plus adjusted itemized deductions \$2,000). Minimum tax for Year 2 is computed as follows:

Gross income	\$ 100,000
Nonpreference deductions for AGI	(40,000)
Other itemized deductions to 60% of WI AGI computed without regard to preference deductions (60% × (30,000 + 30,000), limited to actual itemized deductions)	<u>(20,000)</u>
Recomputed income	<u>\$ 40,000</u>
Lesser of total tax preferences or recomputed income	\$ 32,000
Less: \$10,000 (does not apply to the net operating loss tax preferences carried forward)	<u>(10,000)</u>
Subtotal	\$ 22,000
1984 rate	× 5%
Minimum tax	<u>\$ 1,100</u>

**4. Wisconsin Net Operating Loss**

Introduction: Section 71.02(2)(m), Wis. Stats., provides that a "Wisconsin net operating loss" of persons other than corporations for the 1965 taxable year and thereafter means a "federal net operating loss" adjusted by the mod-

ifications prescribed in sections 71.05(1) and (4), Wis. Stats. Section 71.02(2)(l), Wis. Stats., provides that a "federal net operating loss" of persons other than corporations means a net operating loss as determined under the Internal Revenue Code. For Wisconsin tax purposes, the Internal Revenue Code means the federal Internal Revenue Code as defined under section 71.02(2), Wis. Stats. Therefore, a Wisconsin net operating loss is a federal net operating loss adjusted by the modifications and differences between Wisconsin and federal law prescribed under the statutes.

Computation of Federal Net Operating Loss: In general, a federal net operating loss is equal to gross income less deductions, subject to certain adjustments explained as follows:

- A. Personal exemptions are not deductible.
- B. The net operating loss carryovers and carrybacks from other taxable years are not deductible.
- C. The long-term capital gain deduction is not allowable.
- D. Nonbusiness capital losses are only deductible to the extent of nonbusiness capital gains.
- E. Nonbusiness deductions are allowable only to the extent of nonbusiness income, including any nonbusiness capital gains that remain after deducting nonbusiness capital losses.
- F. Business capital losses are only deductible to the extent of business capital gains plus any nonbusiness capital gains that remain after deducting nonbusiness capital losses and other nonbusiness deductions.

For more information on how to compute a federal net operating loss, refer to federal Publication 536, *Net Operating Losses and the At-Risk Limits*.

Adjustments Required To Compute A Wisconsin Net Operating Loss: Certain adjustments must be made to a federal net operating loss in order to compute a Wisconsin net operating loss. A federal net operating loss must be (a) reduced by the addition modifications prescribed under sections 71.05(1) and (4), Wis. Stats., (b) increased by the subtraction modifications prescribed under sections 71.05(1) and (4), Wis. Stats., and (c) adjusted by the differences between Wisconsin and federal law that exist because of Wisconsin's definition of the Internal Revenue Code. The modifications prescribed under sections 71.05(1) and (4), Wis. Stats., and differences between Wisconsin and federal law defined under section 71.02(2), Wis. Stats., are explained below.

- A. Addition Modifications
  - 1. Interest on state and municipal bonds and volunteer fire department and mass transit obligations, less related expenses, excluded by reason of section 103 of the Internal Revenue Code. (s. 71.05(1)(a)1, Wis. Stats.)
  - 2. Any amounts deducted under section 1202 of the Internal Revenue Code (relating to the deduction for capital gains) for taxable years prior to 1982. For taxable year 1982, two-thirds of any amounts deducted under section 1202 of the Internal Revenue Code in effect on December 31, 1980. For taxable year 1983, one-third of any amounts deducted under section 1202 of the Internal Revenue Code in effect on December 31, 1980. For taxable year 1984 and thereafter, none of the

amounts deducted under section 1202 of the Internal Revenue Code in effect on December 31, 1980. (s. 71.05(1)(a)2, Wis. Stats.) Note: Capital gains are taken into account at 100 percent in computing a federal net operating loss so that it should generally not be necessary to adjust a federal net operating loss by this modification in computing the Wisconsin net operating loss.

3. Losses of nonresident individuals not allocable or apportionable to Wisconsin under s. 71.07, Wis. Stats. (s. 71.05(1)(a)3, Wis. Stats.)

**Example:** A nonresident of Wisconsin incurred a Wisconsin farm loss of \$(3,000) and an Illinois business loss of \$(5,000) in 1984. These were the nonresident's only sources of income (loss) in 1984 so that his federal net operating loss was \$(8,000). Section 71.07(1), Wis. Stats., provides that all income or loss of nonresident individuals derived from business follows the situs of the business from which derived. Therefore, an add modification must be made to the federal net operating loss for the Illinois business loss not allocable to Wisconsin in computing the Wisconsin net operating loss. Thus, the Wisconsin net operating loss is \$(3,000).

4. Any amount deducted as a capital loss carryover from any taxable year prior to the 1965 taxable year. (s. 71.05(1)(a)4, Wis. Stats.)

5. Gain on the sale or exchange of a principal residence excluded under section 1034(a) of the Internal Revenue Code, if the new residence referred to therein is located outside Wisconsin (1981 taxable years and prior). (s. 71.05(1)(a)5, Wis. Stats.)

6. The Wisconsin taxable portion of a capital gain on the involuntary conversion of Wisconsin property by nonresident individuals excluded under section 1033 of the Internal Revenue Code if the replacement property is located outside Wisconsin. (s. 71.05(1)(a)6, Wis. Stats.)

7. Moving expenses incurred to move from Wisconsin. (s. 71.05(1)(a)7, Wis. Stats.)

8. The amount of any lump sum distribution from an employe benefit plan taxable under section 402(e)(1) of the Internal Revenue Code. (s. 71.05(1)(a)8, Wis. Stats.)

9. Any amount deducted as a capital loss carryover from any taxable year prior to 1975 if the capital asset which generated the loss had a situs outside of Wisconsin. (s. 71.05(1)(a)9, Wis. Stats.)

**Example:** A Wisconsin resident sold Illinois investment property in 1974 and incurred a substantial net long-term capital loss which is carried forward and offset against all 1984 capital gains for federal tax purposes. In computing the 1984 federal net operating loss, capital gains and losses are taken into account at 100 percent except that capital losses may not exceed capital gains. Since the capital asset which generated the loss in 1974 had a situs outside of Wisconsin, the Wisconsin net operating loss is computed by reducing the federal net operating loss by the amount of capital loss carried forward and offset against 1984 federal capital gains.

10. Any amount received in taxable year 1979 or thereafter by a Wisconsin resident shareholder as a proportionate share of the earnings and profits of a

tax-option corporation, which was accumulated prior to the beginning of its 1979 taxable year and not considered a dividend when received under section 1375(d)(1) of the Internal Revenue Code. (s. 71.05(1)(a)10, Wis. Stats.)

11. Interest income on all-savers certificates excluded from federal taxable income by reason of section 128 of the Internal Revenue Code. (s. 71.05(1)(a)11, Wis. Stats.)

12. Any amount excluded under section 305(e) of the Internal Revenue Code (relating to dividends reinvested in stock of public utilities). (s. 71.05(1)(a)12, Wis. Stats.)

13. The Wisconsin taxable portion of a gain on the sale or exchange of capital assets with Wisconsin situs by a nonresident alien to the extent not included in federal adjusted gross income or federal taxable income (1979 taxable years and thereafter). (s. 71.05(1)(a)13, Wis. Stats.)

14. Any amount deducted as a charitable contribution under section 170(i) of the Internal Revenue Code by an individual who does not itemize deductions. (s. 71.05(1)(a)14, Wis. Stats.)

15. Wages paid to an entertainer or entertainment corporation unless the taxpayer complies with Wisconsin's reporting requirements under ss. 71.10(18)(am), 71.19(4)(b) and 71.20(23) and (24), Wis. Stats. (s. 71.05(1)(a)15, Wis. Stats.)

16. An amount equal to the amount of credit allowed for qualified research expenses and facilities under s. 71.09(12r) and (12rf), Wis. Stats. (s. 71.05(1)(a)16, Wis. Stats.)

17. Any amount deducted as a two-earner marital deduction under section 221 of the Internal Revenue Code. (s. 71.05(1)(a)17, Wis. Stats.)

18. Any amount excluded from adjusted gross income under section 641(c)(1) of the Internal Revenue Code (relating to gain on the sale of any property by a trust within 2 years of acquisition). (s. 71.05(1)(a)22, Wis. Stats.)

#### B. Subtraction Modifications

1. Interest or dividend income on U.S. government obligations, less related expenses, which is by federal law exempt from taxation by Wisconsin. (s. 71.05(1)(b)1, Wis. Stats.)

2. Any amount included under section 668 of the Internal Revenue Code (relating to interest charges on accumulation distributions from foreign trusts). (s. 71.05(1)(b)2, Wis. Stats.)

3. Net income of nonresident individuals not allocable or apportionable to Wisconsin under s. 71.07, Wis. Stats. (s. 71.05(1)(b)3, Wis. Stats.)

**Example:** A nonresident of Wisconsin incurred a Wisconsin business loss of \$(10,000). The nonresident also had Iowa farm income of \$3,000 so that his federal net operating loss was \$(7,000). Section 71.07(1), Wis. Stats., provides that all income or loss of nonresident individuals derived from the operation of any farm follows the situs of the property from which derived.

Therefore, a subtraction modification must be made from the federal net operating loss for the Iowa farm income not allocable to Wisconsin in computing the Wisconsin net operating loss. Thus, the Wisconsin net operating loss is \$(10,000).

4. Any other amount not subject to taxation under Chapter 71 of the Wisconsin Statutes, less any amount allocable thereto which has been deducted in the computation of federal taxable or adjusted gross income. (s. 71.05(1)(b)4, Wis. Stats.)

Example: A subtraction modification is allowed under this section of the statutes for income that is exempt from taxation under Chapter 71. Military pay, payments from certain employe retirement systems and civil service annuities may be exempt from taxation if certain statutory requirements are met.

5. Any interest received or accrued by prisoners of war during their imprisonment or during the year of their release on income which is exempt from taxation under section 112 of the Internal Revenue Code. (s. 71.05(1)(b)5, Wis. Stats.)

6. Any amount expended by an adoptive parent or a prospective adoptive parent for adoption costs, to the extent that this amount, when added to allowable medical deductions under section 213 of the Internal Revenue Code, exceeds 5 percent of the person's federal adjusted gross income. (The federal adjusted gross income limitation was 3 percent for the 1979 through 1982 taxable years). (s. 71.05(1)(b)7, Wis. Stats.)

7. Disability payments to persons under age 65 who retired on disability and who were permanently and totally disabled, to the extent these payments were excludable under section 105(d) of the Internal Revenue Code immediately prior to its repeal in 1983. (s. 71.05(1)(b)8, Wis. Stats.)

8. Social security and railroad retirement benefits to the extent included in federal adjusted gross income under sections 72(r) and 86 of the Internal Revenue Code (s. 71.05(1)(b)9, Wis. Stats.)

9. Sick pay benefits paid under the Railroad Retirement Insurance Act to the extent these payment were included in federal adjusted gross income under section 105(i) of the Internal Revenue Code (s. 71.05(1)(b)10, Wis. Stats.)

#### C. Addition or Subtraction Modifications, As Appropriate

1. Transitional adjustments and other adjustments reflecting differences between the federal and Wisconsin bases of assets per ss. 71.05(1)(c), (2), (4) and (5), Wis. Stats.

2. Distributive share of partnership modifications. (s. 71.05(1)(e), Wis. Stats.)

3. Any amounts included or excluded from federal adjusted gross income by reason of Subchapter R of the Internal Revenue Code (relating to proprietorships or partnerships electing to be taxed as corporations). (s. 71.05(1)(f)1, Wis. Stats.)

4. Any amount included or excluded from a shareholder's 1979 federal adjusted gross income which represents his or her proportionate share of a tax-op-

tion corporation's federal taxable income or loss for taxable year 1978. (s. 71.05(1)(f)2, Wis. Stats.)

5. A shareholder's proportionate share of the difference between a tax-option corporation's federal taxable income or loss and Wisconsin net income or loss (1979 taxable year and thereafter). (s. 71.05(1)(f)3, Wis. Stats.)

6. Any amount necessary to prevent the double inclusion or omission of any item of income, deduction or basis in a tax-option corporation shareholder's taxable income. (ss. 71.05(1)(f)3 and 71.05(5), Wis. Stats.)

7. An amount which represents the difference in the federal and Wisconsin bases of property acquired by inheritance in the year of sale, exchange, abandonment or other disposition. (ss. 71.05(1)(g) and 71.05(5), Wis. Stats.)

8. The cost of any waste treatment plant or pollution abatement equipment acquired in 1969 or thereafter, subject to the conditions set forth in s. 71.05(1)(h) or (i), Wis. Stats. In the case of an individual who elects to claim a subtraction modification for the cost of such equipment, add modifications must be made in subsequent years to reverse federal depreciation or amortization or to correct gain or loss on disposition.

9. For the year of disposition of a partnership interest, an amount which reflects an increase or decrease in the basis of a partnership interest occurring in taxable years prior to 1975 as a result of losses or gains relating to business or property which had a situs outside Wisconsin. (s. 71.05(4)(b), Wis. Stats.)

#### D. Differences Between Wisconsin and Federal Law for 1984

For the 1984 taxable year, a Wisconsin net operating loss must be computed under the provisions of the Internal Revenue Code in effect on December 31, 1983 with the exceptions provided under section 71.02(2)(b)10, Wis. Stats. These exceptions are as follows:

1. Wisconsin allows an itemized deduction for political contributions as it was allowed under section 218 of the Internal Revenue Code prior to its repeal in 1978.

2. Wisconsin allows a foreign earned income exclusion of \$15,000 (\$20,000 for employes of U.S. charitable organizations) to residents who are working abroad. Wisconsin follows the provisions of section 911(c) of the Internal Revenue Code as it existed on December 31, 1977 in allowing this exclusion. The federal foreign earned income exclusion and a foreign housing cost exclusion or deduction allowed under the Internal Revenue Code in effect on December 31, 1983 is not recognized for Wisconsin tax purposes.

3. The federal special tax treatment of "incentive stock option" plans under section 422A of the Internal Revenue Code is not recognized for Wisconsin tax purposes.

Amendments to the Internal Revenue Code enacted after December 31, 1983 do not apply for Wisconsin tax purposes. Therefore, changes made by the federal Tax Reform Act of 1984 may not be used for Wisconsin purposes for 1984. A comprehensive list of the provisions of federal law which may not be used for Wisconsin purposes for 1984 can be found in the instructions for Wisconsin

Schedule I which may be obtained from any Department of Revenue office.

#### E. Allocation of Income and Deductions Between Spouses

Under Wisconsin law, husband and wife are considered separate taxpayers. Their incomes and losses are not added together as on a joint federal return. Therefore, items of income and deduction which are included in the computation of the federal net operating loss on a joint federal tax return must be allocated between spouses to determine the Wisconsin net operating loss. Also, the modifications and adjustments for differences between Wisconsin and federal law must be allocated between spouses to determine the Wisconsin net operating loss.

Computation of Wisconsin Net Operating Loss: The following example shows (A) the computation of a federal joint net operating loss, (B) the computation of a spouse's separate Wisconsin net operating loss and (C) the adjustments necessary to convert a federal joint net operating loss to a separate Wisconsin net operating loss.

Example: A Wisconsin resident is married, he and his spouse are under age 65 and they have one dependent. The taxable income on their 1984 joint federal tax return is computed as follows:

<i>Income</i>			
(Wife)	Wages		\$ 9,505
(Joint)	Interest income		
	Savings accounts	\$ 300	
	U.S. Government Bonds	<u>200</u>	500
(Joint)	Dividend income (\$450 minus \$200 exclusion)		250
(Wife)	Refund of state income taxes		400
(Joint)	Long-term capital gain		
	Gain on sale of stock	\$ 1,100	
	Less: Capital gain deduction	<u>(660)</u>	440
(Husband)	Farm loss (Schedule F)		<u>(16,505)</u>
	Total for 1984		\$ (5,410)
<i>Adjustments to Income</i>			
(Wife)	Contribution to individual retirement account		<u>(1,000)</u>
	<i>Adjusted Gross Income</i>		\$ (6,410)
<i>Itemized Deductions</i>			
	Taxes (state income tax \$500, real estate tax \$1,000)	\$ 1,500	
	Interest expense	2,500	
	Casualty loss	<u>500</u>	
	Total	\$ 4,500	
	Zero bracket amount	<u>(3,400)</u>	
	Excess itemized deductions		\$ (1,100)
	<i>Personal exemptions (3 @ \$1,000)</i>		<u>(3,000)</u>
	<i>1984 Taxable Income (Loss)</i>		<u><u>\$(10,510)</u></u>

#### A. Federal Joint Net Operating Loss

Taxable income on 1984 federal tax return			\$(10,510)
Zero Bracket Amount			(3,400)
Adjustments:			
Capital gain deduction		\$ 660	
Personal exemptions		3,000	
Nonbusiness deductions:			
Contribution to IRA	\$1,000		
*State income taxes	125		
Real estate taxes	1,000		
Interest expense	<u>2,500</u>		
Total	<u>\$4,625</u>		
Nonbusiness income:			
Interest income	\$ 500		
Dividend income	250		
*Refund of state income taxes	100		
Long-term capital gain	<u>1,100</u>		
Total	<u>\$1,950</u>		
Excess of nonbusiness deductions over nonbusiness income		<u>\$2,675</u>	<u>2,675</u>
Total Adjustments		\$6,335	<u>6,335</u>
1984 Federal Joint Net Operating Loss			<u><u>\$ (7,575)</u></u>

\*State income taxes paid are allocated between business and nonbusiness deductions according to the income of the year that created the taxes. The refund of state income taxes is allocated between business and nonbusiness income according to the income of the year that created the refund. For purposes of simplification of this example, a ratio of 75% business/25% nonbusiness is used for both allocations.

#### B. Wisconsin Net Operating Loss

For purposes of computing the 1984 Wisconsin net operating loss, the following additional information is provided:

1. The ownership of the income items is allocated to husband and wife as shown above.
2. The taxpayers received interest income of \$500 on jointly owned municipal bonds which is not included in federal adjusted gross income.
3. The taxpayers received dividend income of \$100 on jointly owned stock of a public utility and elected to exclude this dividend income from their federal taxable income.
4. The wife will claim the standard deduction since it is greater than the Wisconsin itemized deductions of \$3,000 (Total federal itemized deductions of \$4,500 less taxes of \$1,500).

The computation of 1984 Wisconsin total income and Wisconsin net taxable income is shown in the excerpts of the taxpayers' 1984 Wisconsin Form 1 in Exhibit A (page 19).

EXCERPTS FROM 1984 WISCONSIN FORM 1

Computation of Wisconsin Total Income		Single Persons-Complete only Column B.		
Married Persons-For lines 5-25 enter in Column A amounts as they appear on Form 1040. Then enter in Column B and C amounts which would have been reported on separate Federal returns of husband and wife. Column A will not always equal Column B plus Column C.		Column A Joint Total	Column B Single Person or Husband	Column C Wife
<b>Federal Income</b>				
5	Wages, salaries, tips, etc. (from Federal Form 1040, Line 7).....	5 9,505 00		9,505 00
6	Interest income (from Federal Form 1040, Line 8).....	6 500 00	250 00	250 00
7	Dividends (from Federal Form 1040, Line 9c; see instructions, page 3).....	7 250 00	125 00	125 00
8	Refunds of state and local income taxes (from Federal Form 1040, Line 10).....	8 400 00	Not taxable for Wisconsin	
9	Business income or loss (from Federal Form 1040, Line 12).....	9		
10	Capital gains or losses (from Federal Form 1040, Lines 13 and 14).....	10 440 00	220 00	220 00
11	Rents, royalties, etc. (from Federal Form 1040, Line 18).....	11		
12	Farm income or loss (from Federal Form 1040, Line 19).....	12 (16,505 00)	(16,505 00)	
13	Unemployment compensation (from Federal Form 1040, Line 20b; see instr., page 3).....	13		
14	Social Security benefits (from Federal Form 1040, Line 21b).....	14	Not taxable for Wisconsin	
15	Other income (from Federal Form 1040, Lines 11, 15, 16, 17b, and 22).....	15		
16	Total (Column A should agree with Federal Form 1040, Line 23).....	16 (5,410 00)	(15,910 00)	10,100 00
<b>Federal Adjustments</b>				
17	Moving expense (from Federal Form 1040, Line 24).....	17		
18	Employee business expenses (from Federal Form 1040, Line 25).....	18		
19	Payments to an IRA (from Federal Form 1040, Line 26a).....	19 1,000 00		1,000 00
20	Payments to a Keogh Plan (from Federal Form 1040, Line 27).....	20		
21	Interest penalty (from Federal Form 1040, Line 28).....	21		
22	Alimony paid (from Federal Form 1040, Line 29).....	22		
23	Married couple deduction (from Federal Form 1040, Line 30).....	23	Not deductible for Wisconsin	
24	Total adjustments (add Lines 17 through 23).....	24 1,000 00		1,000 00
25	Federal-Adjusted Gross Income (subtract Line 24 from Line 16) (Column A should agree with Federal Form 1040, Line 32).....	25 (6,410 00)	(15,910 00)	9,100 00
<b>Additions to Federal Income</b>				
26	State and municipal bond interest.....	26	250 00	250 00
27	Reinvested public utility stock dividends (from Federal Schedule B, Part II, Line 8).....	27	50 00	50 00
28	Other additions (Moving expenses to move from Wisconsin, etc.) see instructions, page 5.....	28		
29	Total additions (add Lines 26 through 28).....	29	300 00	300 00
30	Subtotal (add Lines 25 and 29).....	30 (15,610 00)		9,400 00
<b>Subtractions from Federal Income</b>				
31	United States Government interest and dividends.....	31	100 00	100 00
32	Disability income exclusion (attach Schedule 2440W).....	32		
33	Retirement benefits (see instructions, page 6).....	33		
34	Other (First \$1,000 of military pay, etc.) List:.....	34		
35	Total subtractions (add Lines 31 through 34).....	35 100 00		100 00
36a	Wisconsin total income (subtract Line 35 from Line 30).....	36a (15,710 00)		9,300 00

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Form 1 (1984) Page 2	Single Person or Husband	Wife
36b Wisconsin total income from line 36a.....	36b (15,710 00)	9,300 00

**Deductions** If you itemize deductions, complete Lines 37 through 41. If you claim the standard deduction, go on to Line 42.

37	Total itemized deductions from Federal Schedule A, Line 24.....	37 4,500 00					
38	Political contributions deduction (see instructions, page 7).....	38					
39	Subtotal (add Lines 37 and 38).....	39 4,500 00					
40	Taxes from Federal Schedule A, Line 10.....	40 1,500 00					
41	Total Wisconsin itemized deductions (subtract Line 40 from Line 39).....	41 3,000 00					
42	Enter larger of itemized deductions (Line 41) or standard deduction (from tables, page 12 or 19) Nonresidents and part-year residents must enter prorated deductions on Line 42. See instructions, page 15.....	42	1	2	3	4	5 4,800 00
42a	If you have unearned income and can be claimed as a dependent on anyone else's return, see instr., p. 8 and check here: <input type="checkbox"/>	42a					
43	Wisconsin Net Taxable Income (subtract Line 42 from Line 36b).....	43 (15,710 00)					4,500 00

Attach wage statements here

The husband's 1984 Wisconsin net operating loss is computed by adjusting his federal adjusted gross income (loss) of \$(15,910) shown on line 25, Column B, by (1) the federal adjustments necessary to compute a federal net operating loss and (2) the Wisconsin modifications.

1984 Federal adjusted gross income	\$(15,910)
Federal net operating loss adjustments:	
Add: Capital gain deduction	330
Net operating loss before Wisconsin modifications	\$(15,580)
Wisconsin modifications:	
Add: Municipal bond interest	250
Add: Reinvested public utility stock dividends	50
Subtract: U.S. Government bond interest	(100)
1984 Wisconsin net operating loss	<u>\$(15,380)</u>

### C. Reconciliation of Federal and Wisconsin Net Operating Loss

The 1984 federal joint net operating loss can be reconciled to the husband's 1984 Wisconsin net operating loss as follows:

Federal joint net operating loss	\$ (7,575)
Subtract: Wife's business income since she is separate taxpayer	
a. Wages	\$ 9,505
b. Refund of state income taxes	300
	(9,805)
Add: Wife's business deductions since she is separate taxpayer	
a. Casualty loss	\$ 500
b. State income tax deduction	375
	875
Add: Husband's Wisconsin non-business income in excess of husband's Wisconsin nonbusiness deductions of -0-	
a. Interest income	\$ 250
b. Dividend income	125
c. Capital gain income @ 100%	550
	925
Net operating loss before Wisconsin modifications	\$(15,580)
Wisconsin modifications	
Add: Municipal interest	\$ 250
Add: Public utility stock dividends	50
Subtract: U.S. Government bond interest	(100)
	200
1984 Wisconsin net operating loss	<u>\$(15,380)</u>

**Deduction of Wisconsin Net Operating Loss Carryforward:** A Wisconsin net operating loss not offset by income of the year of the loss may be carried forward and offset against Wisconsin taxable income of the five years subsequent to the year of the loss. The carryback of losses to reduce income of prior years is not permitted (s. 71.05 (1)(d), Wis. Stats.).

An addition modification is required on the Wisconsin tax return for any amount deducted as a federal net operating loss carryover in the computation of federal adjusted gross income. A subtraction modification is allowed for the Wisconsin net operating loss carryforward (s. 71.05 (1)(d),

Wis. Stats.). In 1984, these addition and subtraction modifications are reported on Wisconsin Form 1, line 28 and line 34, respectively. A schedule should be attached to the Wisconsin tax return showing how the Wisconsin net operating loss carryforward claimed as a subtraction modification is computed.

**Computation of Wisconsin Net Operating Loss Carryforward (NOLC):** In computing a Wisconsin net operating loss carryforward to subsequent years, the following items should be considered.

A. Wisconsin taxable income in the first year subsequent to the loss year is computed without regard to the subtraction modification for the Wisconsin net operating loss carryforward. Therefore, the itemized deductions, standard deduction or low income allowance are/is allowed in computing taxable income against which the net operating loss carryforward is applied.

B. A subtraction modification may be claimed for the Wisconsin net operating loss carryforward in any amount not in excess of Wisconsin taxable income computed without regard to the net operating loss carryforward.

C. The standard deduction or low income allowance should be recomputed based on Wisconsin total income after the deduction of the Wisconsin net operating loss carryforward.

D. The remaining Wisconsin net operating loss may be carried forward to the second year succeeding the loss year.

E. Wisconsin net operating losses should be carried forward in chronological order.

**Example 1:** A single taxpayer's 1984 federal adjusted gross income is computed as follows:

Business income	\$ 8,000
Interest income	2,000
Federal NOLC	(3,000)
Federal adjusted gross income	\$ 7,000

The Wisconsin net operating loss carryforward to 1984 is \$(10,000) and the Wisconsin itemized deductions are \$4,000. A subtraction modification for the Wisconsin net operating loss carryforward to 1984 is allowed in any amount not in excess of \$6,000 computed as follows:

Federal adjusted gross income	\$ 7,000
Add: Federal NOLC	3,000
Subtotal	\$ 10,000
Itemized deductions	(4,000)
Wisconsin taxable income before NOLC	\$ 6,000
Allowable Wisconsin NOLC	<u>\$ 6,000</u>

**Example 2:** A taxpayer is married, he and his spouse are under age 65 and they have one dependent. Adjusted gross incomes as computed on their 1984 Wisconsin Form 1 follow:

	Joint	Husband	Wife
Wages	\$ 10,000	\$ -0-	\$10,000
Interest income	1,900	1,600	300
Business loss	(300)	(300)	-0-
Federal NOLC	(9,000)	(9,000)	-0-
Federal adjusted gross income	\$ 2,600	\$ (7,700)	\$10,300