



# Wisconsin TAX BULLETIN



## Voluntary Disclosure

See article on page 2.

## Preparers — Don't Forget About Use Tax!

When preparing individual income tax returns this tax season, don't forget to ask your clients if they made any out-of-state purchases subject to use tax. A line is included on the individual income tax returns (Forms 1, 1A, WI-Z, and 1NPR) to make the reporting of use tax easier for individuals. This line, "Sales/Use Tax Due on Out-of-State Purchases," should be mentioned to each of your customers.

The Department of Revenue has been contacting thousands of individuals regarding use tax. A common complaint the department receives is "Why didn't my preparer tell me about use tax? My preparer is supposed to know about these taxes, not me!"

Help your clients by informing them about taxes that apply to them, including **use tax**.

## Package WI-X Available for 1994

Package WI-X contains actual size copies of most 1994 Wisconsin individual and fiduciary income tax, corporation franchise and income tax, partnership, estate tax, motor vehicle fuel tax, sales and use tax, and withholding tax forms.

If you have not yet ordered your 1994 Package WI-X, send your request and \$7 per copy to Wisconsin Department of Revenue, Shipping and Mailing Section, P.O. Box 8903, Madison, WI 53708-8903.

## Reminder: Use Your Label

Preparers and taxpayers, remember to apply the preprinted address label to the completed tax return you submit to the department. Use the address label, even if filing a computerized return. If you or your client received a postcard with an address label instead of an income tax booklet, be sure to transfer the label to the tax return.

Use of the label speeds processing of the tax return and reduces errors. Taxpayers who use the preprinted label receive their Wisconsin refund checks faster than those who do not use the label.

Corrections to incorrect information on the label may be made directly on the label.

## Some Taxpayers Receive a Postcard Instead of Forms

Approximately 620,000 individuals recently received a postcard instead of a 1994 Wisconsin income tax booklet. The postcards were sent to those individuals who used a paid preparer in filing their 1993 return.

**Taxpayers:** The postcard includes a removable name and address label. Take it to your preparer so the preparer can apply the label to your tax return.

**Preparers:** If any of your clients received a postcard, make sure you apply the name and address label to the 1994 Wisconsin return you prepare for your client.

## Reminder: Certain Information Returns Are Due January 31

Various Wisconsin information returns or the federal counterpart forms are required to be filed by January 31 with the Wisconsin Department of Revenue. Others are due March 15 or April 15 (April 17 in 1995).

For information about the Wisconsin information return requirements, refer to the copy of Wisconsin Publication 117, *Guide to Wisconsin Information Returns*, on pages 29 and 30 of this Bulletin.

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### Wisconsin Tax Bulletin

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### Voluntary Disclosure: File Now or Pay More Later

If an individual, partnership, or corporation hasn't filed the required Wisconsin tax returns, but now wants to comply with the tax laws, what should that person do? If a person waits until a letter is received from the Wisconsin Department of Revenue, the person could be subject to costly civil and criminal penalties. For example, failure to file a corporation franchise/income tax return with

intent to evade the tax may result in a civil penalty equal to 100% of the tax and criminal penalties.

Don't wait for a contact from the Department of Revenue. A better alternative is to voluntarily disclose to the Department of Revenue the non-filing of prior years' returns and request that a settlement agreement be executed. The information on pages 31 to 37 of this Bulletin describes the department's policy relating to voluntary disclosure and the procedures for persons to follow. □

## Reporting Lump-Sum Distributions

The instructions for 1994 Wisconsin Forms 1, 1NPR, and 2 refer to a lump-sum distribution reported on line 12 or 35 of federal Form 4972.

Federal Form 4972 has been revised so that line 35 is no longer used for reporting the taxable amount of a lump-sum distribution. Therefore, the reference in the Forms 1, 1NPR, and 2 instructions to line 35 of federal Form 4972 should be ignored.

The amount of lump-sum distribution to be reported on Form 1, 1NPR, or 2 is the taxable amount from line 12 of federal Form 4972, plus any capital gain reported on line 8 of Form 4972. □

## Recycling Surcharge Rates Unchanged

The temporary recycling surcharge rates remain unchanged for taxable years beginning on or after January 1, 1995, and before January 1, 1996.

Wisconsin law requires the Department of Revenue annually, in December, to establish annual recycling surcharge rates for taxable years beginning on or after the following January 1 to generate sufficient revenue to fund the appropriations from the recycling fund for the following fiscal year. The annual surcharge rates must be approved by the Legislature's Joint Committee on Finance. □

## Information Returns to Be Sent to Federal Retirees

During January 1995, Form 1099-G and/or 1099-INT information returns will be mailed by the department to many federal retirees who are receiving refunds of Wisconsin income tax

they paid on their federal retirement income for tax years 1984 through 1988. Refunds to these individuals are being made in six installment payments. Two installment payments were made in 1994.

Federal law requires the department to provide information returns (1099-Gs) for refunds of Wisconsin income tax which aggregate \$10 or more in any taxable year. Information returns (1099-INTs) reporting payments of interest by the department are required when the aggregate amount is \$600 or more in any taxable year.

The interest portion of the refund the federal retirees receive is includable in both federal and Wisconsin taxable income.

The tax portion of the refund is not includable in Wisconsin taxable income. However, the tax portion may be includable in federal taxable income. The determination of whether the tax portion is includable in income for federal purposes must be made on a case-by-case basis.

The Internal Revenue Service (IRS) has developed special worksheets for each of the tax years 1984 to 1988, which may be used to help determine whether a state income tax refund must be included in federal taxable income. These special worksheets for computing the taxable portion may be obtained from the IRS. □

## Forest County Adopts County Tax

Effective April 1, 1995, the county sales and use tax will be adopted by Forest County. This brings to 47 the number of counties that have adopted the ½% county tax.

The January 1995 *Sales and Use Tax Report*, a copy of which appears on

pages 39 to 42 of this Bulletin, explains how the county tax applies to retailers and other persons. It includes a listing of the counties that have adopted the county tax. □

## Information or Inquiries?

Listed below are telephone numbers to call if you wish to contact the Department of Revenue about any of the taxes administered by the Income, Sales, and Excise Tax Division.

### Madison — Main Office Area Code (608)

|  |          |
|--|----------|
| Appeals . . . . .  | 266-0185 |
| Audit of Returns: Corporation, Individual, Homestead . . . . . | 266-2772 |
| Beverage . . . . .   | 266-6701 |
| Cigarette, Tobacco Products . . . . .                          | 266-8970 |
| Copies of Returns:   |          |
| Homestead . . . . .  | 266-2890 |
| Individual . . . . .   | 266-1266 |
| All Others . . . . .   | 266-0678 |
| Corporation Franchise and Income . . . . .                     | 266-1143 |
| Delinquent Taxes . . . . .                                     | 266-7879 |
| Estimated Taxes . . . . .                                      | 266-9940 |
| Fiduciary, Estate . . . . .                                    | 266-2772 |
| Forms Request:   |          |
| Taxpayers . . . . .  | 266-1961 |
| Practitioners . . . . .  | 267-2025 |
| Homestead Credit . . . . .                                     | 266-8641 |
| Individual Income . . . . .                                    | 266-2486 |
| Motor Vehicle Fuel . . . . .                                   | 266-3223 |
| Refunds . . . . .  | 266-8100 |
| Sales, Use, Withholding . . . . .                              | 266-2776 |
| TDD . . . . .  | 267-1049 |

### District Offices

|                      |                |
|----------------------|----------------|
| Appleton . . . . .   | (414) 832-2727 |
| Eau Claire . . . . . | (715) 836-2811 |
| Milwaukee:           |                |
| General . . . . .    | (414) 227-4000 |
| Refunds . . . . .    | (414) 227-4907 |
| TDD . . . . .        | (414) 227-4147 |

## Focus on Publications: Filing Claims for Refund of Sales or Use Tax

Beginning September 1, 1994, buyers may file claims for refund directly with the Department of Revenue, for sales or use tax paid to a seller in error. Sellers receiving refunds of sales or use tax collected from customers must return the refund (tax and interest) to the customer.

A new publication, Publication 216 (*Filing Claims for Refund of Sales or Use Tax*), explains who may file a claim for refund of Wisconsin sales or use tax and also includes information relating to forms, time limitations for filing, interest, and penalties.

A copy of Publication 216 appears on pages 43 to 60 of this Bulletin.

## Electronic Filing and Endangered Resources Team Up

The Wisconsin Department of Revenue (WDOR) and the Department of Natural Resources' Bureau of Endangered Resources (BER) are joining forces to educate the public about the benefits of electronic filing, and to remind filers that donations to the Endangered Resources Fund can be made on Wisconsin electronic returns. Promotions will include radio and television advertising, posters, desk signs, and buttons for electronic filers' offices, nature centers and stores, WDOR/BER offices, and a wide variety of other media.

Participants in the Wisconsin electronic filing program will be invited to join in the campaign in one or both of the following ways.

1. WDOR will furnish to electronic filers on request, tapes of radio commercials advertising electronic filing and endangered resource-

donations. Electronic filers can purchase their own air time, on whatever radio station(s) they prefer. They may also add their "tag" to the commercial. Tags are limited to the firm's name, address, telephone number, and/or hours of operation.

2. Electronic filers and software companies are working together to collect funds to purchase air time for commercials advertising electronic filing and endangered resources donations. The commercials will air primarily in the Madison — Milwaukee — Fox Valley areas.

If you'd like a taped commercial or want more information on how you can help promote electronic filing and endangered resources donations, please call or write:

Carolyn Larson, Coordinator  
Wisconsin Electronic Filing  
P.O. Box 8977  
Madison, WI 53708-8977  
Phone: (608) 264-6886

— or —

Mary Kay Sherer  
Bureau of Endangered Resources  
P.O. Box 7921  
Madison, WI 53707-7921  
Phone: (608) 266-5243

## Reminder: Quick Refunds Available for Individuals

The Department of Revenue will continue its Quick Refund Program for 1994 individual income tax returns processed in 1995. The objective of the Quick Refund Program is to issue individual income tax refunds to qualifying taxpayers in as little as two weeks after the department receives the return. The return is checked for computation and other errors at a later date and, if neces-

sary, an adjustment notice is mailed at that time.

The following requirements must be met for an individual to qualify for a quick refund:

- File a signed and completed 1994 Form WI-Z, Form 1A, or Form 1, including all attachments, on or before April 3, 1995.
- Use the department-printed mailing label on which none of the information is changed.
- Have a Wisconsin address on the department-printed mailing label.
- Have a refund due and enter that refund amount, less any amount carried over to 1995 estimated taxes, in the quick refund box which appears at the top of the return. Be sure to enter both dollars and cents.
- Claim no homestead credit or farmland preservation credit, and owe no delinquent taxes or delinquent debts to other state agencies.
- Mail the return to: Quick Refund, P.O. Box 38, Madison, WI 53787.

Approximately 1.8 million refunds were issued in 1994, and over 470,000 of those were quick refunds.

## 1994 Federal and Wisconsin Individual Income Tax Differences

There are a number of differences between the Wisconsin and federal tax treatment of income, deductions, or credits. The chart on the next page was prepared as a quick reference guide to some of the federal and Wisconsin individual income tax differences for 1994. It is not intended to include all differences.

## 1994 Federal and Wisconsin Individual Income Tax Differences

*Note: This chart is not intended to include all differences.*

| Provision  | Federal Tax Treatment  | Wisconsin Tax Treatment   |
|--|--|---|
| 1. Capital gains and losses:                                     |  |   |
| Net long-term capital gains                                      | Taxable  | 40% taxable   |
| Net capital losses   | Up to \$3,000 may be used to offset ordinary income (\$1,500 if MFS) | Up to \$500 may be used to offset ordinary income   |
| 2. Child and dependent care expenses                             | Credit based on expenses   | No credit or deduction  |
| 3. Child's income reported by parent                             | Permitted: income taxed at parent's rate                             | Not permitted: return must be filed for child   |
| 4. Disability income   | Credit may be allowed  | Exclusion up to \$5,200   |
| 5. Earned income credit  | Credit allowed to individuals without children                       | Credit allowed only to individuals with qualifying children   |
| 6. Farm losses   | Deductible unless passive loss limits apply                          | Federal passive loss limits apply. Also Wisconsin limit based on nonfarm income with carryover of unused losses.  |
| 7. Farmland preservation and farmland tax relief credit received | Treated as a recovery of real estate tax                             | 100% taxable  |
| 8. Foreign income taxes  | Deduction or credit allowed  | No credit or deduction  |
| 9. Interest from U.S. Government securities                      | Taxable  | Not taxable   |
| 10. Itemized deductions  | Allowed as a subtraction from adjusted gross income                  | Certain itemized deductions are used to compute various credits   |
| 11. Job credit   | Credit allowed: wage expense reduced by credit                       | No credit (except in development zones): wage expense allowed   |
| 12. Lump-sum distribution from qualified retirement plan         | 5- or 10-year averaging may be allowed                               | No averaging available, fully taxable   |
| 13. Medical care insurance costs                                 | No separate deduction as of December 1, 1994                         | Subtraction for 50% of medical care insurance cost paid by (1) a self-employed person or (2) an employee whose employer does not contribute toward the cost |
| 14. Personal exemptions  | \$2,450 for taxpayer, spouse, and each dependent                     | \$50 credit for each dependent  |
| 15. Person age 65 or over  | Increased standard deduction   | \$25 credit   |
| 16. Railroad Retirement Board benefits                           | May be taxable   | Not taxable   |
| 17. Rent paid for home   | None   | Credit may be allowed   |
| 18. Retirement income from:                                      |  |   |
| Wisconsin state and local retirement systems                     | May be taxable   | Generally same as federal, except benefits received from an account established before January 1, 1964, are exempt  |
| Federal retirement systems                                       | May be taxable   | Generally same as federal, except benefits received from an account established before January 1, 1964, are exempt  |
| 19. Small business stock   | No exclusion for 1994  | Gain from sale of qualified small business stock acquired on or after January 1, 1986 and held 5 years is not taxable                                       |
| 20. Social security benefits                                     | Up to 85% may be taxable   | Up to 50% may be taxable  |
| 21. State and municipal bond interest                            | Exempt   | Generally taxable; limited exceptions   |
| 22. State income tax refunds                                     | May be taxable   | Not taxable   |
| 23. Unemployment compensation                                    | Taxable  | All, a portion, or none may be taxable  |