

# WISCONSIN TAX UPDATE

Presented by  
WISCONSIN DEPARTMENT OF REVENUE  
Fall 2014

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## DOR Goals

- Goal 1: Implement good tax policy
- Goal 2: Provide excellent customer service
- Goal 3: Promote efficiency and integrity
- Goal 4: Maintain a positive work environment

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## 2015-16 Strategies

- Add individuals with collection case to *MTA* in FY16
- Send delinquent monthly statements through *MTA*
- Develop a mobile-friendly delinquent payment app
- Use audit results to develop five taxpayer education plans to improve voluntary compliance
- Improve field audit cycle time

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## 2015-16 Strategies

- Provide online survey after audit and collection actions
- Conduct online tax practitioner survey after 2015 processing season
- Develop an improved unclaimed property program
- Pilot Spanish new business seminars
- Research options for improved search capability on our website

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## DOR Performance

- **DOR website will include performance metrics aligned to goals**
  - Refund time
  - E-file rates
  - Bad refunds stopped
  - Delinquent collections
  - Tax Refund Intercept Collections

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## DOR Performance

### Refund Time

Average Days to Issue Individual Income Tax Refund				
Return Type	TY 2011	TY 2012	TY 2013	3 Year Average
Paper - Nonsuspended	17.1	19.1	25.68	20.24
E-File - Nonsuspended	4.74	5.63	5.05	5.14
Paper - Suspended	37.72	37.35	41.25	38.67
E-File - Suspended	36.59	43.35	36.95	39.16

#### Notes:

Paper returns do not include time for mail opening and scanning/DV.

Numbers reflect processing time per WINPAS records plus one day for fraud manager review and three days for refund posting.

Includes Form 1, 1A and W-2.

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## DOR Performance

### E-File Rates

% of Electronically Filed Tax Returns

Actual	Tax Processing Year		
	2012	2013	2014
Individual Income	82	86	86
Sales Tax	88	91	95
Corporate	72	77	91

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## DOR Performance

### Bad Refunds Stopped

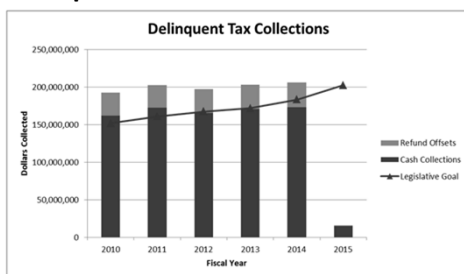
Bad Refunds Adjusted/Stopped  
(FY12-FY14)

Bad Refunds Adjusted/Stopped	Fraud Detection With Analytics	Processing Fraud - CIS	Earned Income Credit	Homestead Credit	Total for Specific Initiatives
FY14	\$3,550,473	\$13,099,311	\$17,710,656	\$15,299,425	\$49,659,865
FY13		\$3,434,613	\$14,257,838	\$12,480,794	\$30,173,245
FY12		\$1,702,300	\$9,341,511	\$14,694,458	\$25,738,269
Total					\$105,571,379

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## DOR Performance

### Delinquent Tax Collections

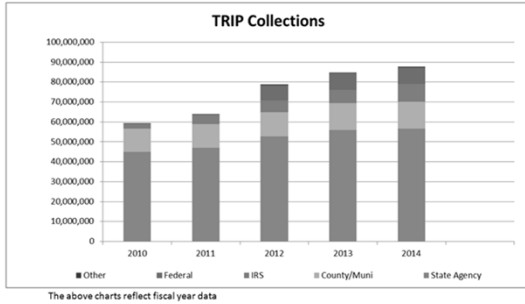


2015 dollars collected are reported through July 2014.

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## DOR Performance

### Tax Refund Intercept (TRIP) Collections



## Tax Processing Update

### • ID Verification

- 2013-15 Budget initiative to identify more individual income tax fraud
- Funding of \$4,257,400 in 2013-14 and \$3,114,000 in 2014-15
- Added
  - Five auditors
  - Four special investigators
  - One revenue agent
  - Three computer programmers
  - Technology upgrades and services

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## Tax Processing Update

### • ID Verification

- Legislative goal to reduce fraudulent refunds by additional \$17 million per year
- System fraud manager and ID Verification implemented in January 2014 to identify:
  - ID theft
  - Overstated individual income tax and homestead credit refunds

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## Tax Processing Update

### • FY14 – Refunds Reduced/Denied

	FY13 Actual	FY14 Actual	Difference	Legislative Goal
ID Verification	\$0	\$3,550,000	\$3,550,000	\$10,000,000
Homestead Credit	\$12,481,000	\$15,299,000	\$2,818,000	\$1,000,000
Earned Income Credit	\$14,258,000	\$17,711,000	\$3,453,000	\$2,000,000
Other	\$3,435,000	\$13,099,000	\$9,664,000	\$4,000,000
Total	\$30,174,000	\$49,659,000	\$19,485,000	\$17,000,000

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## Tax Processing Update

### • ID Verification

- New process for 2013 did slow processing of individual income tax returns
- Analytics increased processing time for a "clean" return by one to two days
- Expect similar results for 2014 returns since we are using a third party for analytics

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## Tax Processing Update

### • ID Verification

- Returns selected for ID verification (less than 1% of population) were delayed 3-5 days for letter production, mailing and validating quiz results before releasing refund
- Additional delays of valid returns selected were as a result of time to take the quiz, quiz failure, and ID document production and review

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## Tax Processing Update

### • ID Verification Statistics - 1/1/14 – 9/29/15

Refund returns and claims evaluated	2,927,008
Letters sent to take quiz	20,060
Letters sent to supply ID verification documents	9,739
Quiz passed	15,892
Quiz failed	3,708
Persons who submitted valid ID verification documents	7,351
Persons who did not pass quiz and did not supply valid ID documents (refund denials)	6,035
Refund denials reversed on appeal	318

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## Tax Processing Update

### • ID Verification Improvements

- Use 2013 results to reduce false positives
- Better manage ID verification document review workload to prevent backlogs
- Add more data sources to increase number selected for quiz versus ID verification document submission

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## Tax Processing Update

### • ID Verification Improvements

- Re-evaluate ID verification rules to address:
  - Large veteran's property tax credit refunds and dependents with first jobs resulting in false positives for ID verification
  - workflow that caused backlogs
  - persons transitioning from Individual Tax Identification Numbers to Social Security Numbers

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### Tax Processing Update

- Analytics will improve with additional data and experience
- As more of our state partners use the same analytics service, selection will improve reducing time to process with existing staff

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### Tax Processing Update

- **Homestead Credit Rent Certificate Redesigned**
  - More white space
  - Two page form
  - Allows for monthly rent amount to be entered for all 12 months

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### Tax Processing Update

- **New Fed/State E-File (MeF) Rejects**
  - Form PW-1 returns filed with software that has not been approved by the DOR will be rejected
  - If college savings plan contributions / distributions claimed, Schedule CS must be provided
  - If private school tuition deduction claimed, Schedule PS must be provided
  - If credit carryforward claimed on Schedule CR, Schedule CF with appropriate credit code must be included

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## Tax Processing Update

### • New Schedules

- College Savings Account contributions and distributions (Schedule CS). Multiple Schedules CS may be necessary - one per beneficiary.
- Private School Tuition deduction (Schedule PS)
- Disregarded Entities (Schedule DE)
  - Listing of disregarded entities owned by taxpayer filed with Forms 1, 1NPR, 2, 3, 4, 4T, 5S, or 6

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## Tax Processing Update

### • New Schedules

- Carryforward of Unused Credits (Schedule CF)
  - Many of the credits formerly claimed on Schedule CR are no longer available
  - However, unused credits from previous years may be claimed as carry forwards
  - Be sure to include appropriate code for credit claimed on the Schedule CF
  - Multiple Schedules CF may be necessary - one schedule per credit

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## Tax Processing Update

### • New Schedules

- New Schedules MA-A for Agricultural Credit and MA-M for Manufacturing Credit - both credits are claimed on Schedule CR
- New Schedules X-NOL for TY2012 and TY2013 - individuals and fiduciaries may elect to carryback a net operating loss incurred in TY2014
  - Corporations do not have carrybacks

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## Tax Processing Update

### • Other Form Changes

- Working Families Tax Credit
  - Removed from Form 1A and WI-Z
  - No longer a benefit due to increased standard deduction and personal exemptions
- Historic Rehabilitation Credits are now claimed on Schedule CR

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## Tax Processing Update

### • 2014 Common Errors

- Estimated payment amount incorrect - verify online
- Sending in printed returns with W-RA form - significantly delays processing
- Underpayment interest not computed when necessary
- Not submitting other state income tax return and documentation when claiming credit for Net Tax Paid to Another State
- Mailing copy of electronically filed return with check payment – only send payment voucher

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## Law Changes

### • IRC Update

- Wisconsin income based on IRC provisions as of December 31, 2010 (same as 2013)
- WI Acts 19 and 20 adopted many specific IRC provisions as of January 1, 2014
  - Other 2010 provisions remain in effect

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## Law Changes

### • IRC Update

- Unless federal law changes for 2014, the following IRC provisions expired (never adopted for WI):
  - Exclusion from gross income up to \$100,000 transferred directly from IRA to charity
  - Exclusion from gross income discharge of debt on principle residence
  - \$250 educator expense deduction

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## Law Changes

### • IRC Update

- Unless federal law changes for 2014, the following IRC provisions expired (never adopted for WI):
  - \$4,000 tuition deduction (WI has its own subtraction)
  - Mortgage insurance premiums included as deductible mortgage interest

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## Law Changes

### • IRC Update – TY2014 and thereafter

- Depreciation – IRC as of 1/1/14
- Amortization – IRC as of 1/1/14
- Depletion – same as federal
- Section 179 expense – same as federal

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## Law Changes

### • Depreciation and Section 179 Expense

- Tax years beginning January 1, 2014
  - Subtraction from income to equalize bases over five years
  - Difference between Wisconsin and federal bases on last day of 2013 tax year
    - x 20% per year beginning 2014 tax year

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## Law Changes

### • Depreciation and Section 179 Expense

- For 2014 – 2018 tax years, a modification of 20% of the difference must be made regardless of whether asset sold or disposed of
- Federal basis < Wisconsin basis = subtraction modification
- Federal basis > Wisconsin basis = addition modification

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## Law Changes

### • Depreciation and Section 179 Expense

- Wisconsin adjusted bases of assets equals federal adjusted bases on first day of 2014 tax year
- An asset sold during 2014 tax year or later has same gain or loss as computed for federal purposes (unless federal law changes)

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## Law Changes

### • Depreciation and Section 179 Expense

- Changes to federal depreciation enacted after 1/1/14 do not apply for WI
- Bonus depreciation expired as of 1/1/14
- Section 179 expense will remain the same as federal even if federal law changes
- As of 1/1/14, IRC section 179 reverts to \$25,000

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## Law Changes

### • Net operating loss for individuals and fiduciaries

- Tax years beginning January 1, 2014
  - May elect two year carry-back (Schedule X-NOL)
  - 20-year carryforward

### • Net business loss for corporations

- Tax years beginning January 1, 2014
  - 20-year carryforward
  - No carryback

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## Law Changes

### • Farming loss add-back eliminated

- Tax years beginning January 1, 2014
  - Deduct entire farming loss – no longer have to add to income the amount of loss if not actively engaged in farming
  - Carryover of unused farm losses from prior tax years can only be deducted up to the amount of farm income reported

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## Law Changes

### • Higher education tuition subtraction

- Automatically indexed for inflation
  - 2014 subtraction is \$6,940 per student
  - Phase out range:
    - \$51,620 - \$61,940 (single or head of household)
    - \$82,590 - \$103,240 (married filing jointly)
    - \$41,300 - \$51,620 (married filing separately)

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## Law Changes

### • College Savings Account Contributions (Schedule CS)

- Tax years beginning January 1, 2014
  - Deadline to make contribution extended to April 15, 2015
  - Anyone making authorized contributions for a beneficiary is eligible for the subtraction
  - Contribution limits indexed for inflation
  - 2014 amount - \$3,050
  - Excess contributions can be carried forward indefinitely

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## Law Changes

### • College Savings Account Contributions

- Addition to income for distributions:
  - Contributed on or after January 1, 2014, that result in federal penalty because not used for qualified higher education expenses
  - Rolled over into another state's qualifying tuition program and previously subtracted from Wisconsin income

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## Law Changes

### • Private School Tuition Paid for Dependents

- Tax years beginning January 1, 2014
  - Up to \$4,000 per pupil for elementary
  - Up to \$10,000 per pupil for secondary
  - Eligible institution defined in sec. 118.165(1), Wis. Stats.

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## Law Changes

### • Private School Tuition Paid for Dependents

- If elementary and secondary pupil in same year, deduct total tuition for the pupil up to \$10,000 (regardless of allocation between elementary and secondary payments)
- Include Schedule PS with Wisconsin return
- Tuition includes mandatory book fees

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## Law Changes

### • Child and Dependent Care Expenses

- Subtraction increases to \$3,000 for one qualified person and \$6,000 if more than one qualified person (was \$2,250 and \$4,500 for 2013)

### • Veterans and Surviving Spouses Property Tax Credit

- Unremarried surviving spouse of qualified veteran may receive credit even if spouse receives dependency and indemnity compensation as defined in 38 USC 101(14)

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## Law Changes

### • Other subtractions

- Beginning January 1, 2014
  - Medical care insurance subtraction reduced by federal premium assistance credit
  - Business relocation subtraction eliminated

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## Law Changes

### • Capital gain exclusion for sale of investment in "qualified Wisconsin business"

- For tax years beginning after December 31, 2015
  - Held five uninterrupted years
  - "Qualifying Wisconsin business" for first year of investment and two of four subsequent years
  - Made after December 31, 2010

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## Law Changes

### • Capital gain deferral for reinvestment in "qualified Wisconsin business"

- For tax years after December 31, 2013
  - Invest any capital gain in "qualifying Wisconsin business" within 180 days of sale
  - Subtract gain from income and reduce basis in "qualifying Wisconsin business" investment
  - Deferred gain not eligible for "qualifying Wisconsin business" exclusion

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## Law Changes

- **"Qualifying Wisconsin business"**

- Certified with Wisconsin Economic Development Corporation pre-2014
- Registered with DOR beginning in 2014
- See DOR website for business listing

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## Law Changes

- **DOR Registration Program**

- Register electronically on DOR website
- Placed on internet listing of qualified Wisconsin businesses (monthly)
- Must register every year

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## Law Changes

- **DOR Registration Program**

- Business eligible if in taxable year immediately before date of registration:
  - At least two employees
  - 50% of payroll in Wisconsin
  - 50% of real estate and tangible property in Wisconsin

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## Law Changes

- **Individual and fiduciary rate reduction**

- Tax years beginning January 1, 2014

Tax Rate Reduction				
Rate	Bottom Rate	2 <sup>nd</sup> Rate	3 <sup>rd</sup> Rate	Top Rate
Before	4.40%	5.84%	6.27%	7.65%
				
After	4.00%	5.84%	6.27%	7.65%

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## Law Changes

- **Homestead and Farmland Preservation Credit**

- Tax years beginning January 1, 2012 (retroactive)
  - Income includes net operating loss carrybacks deducted when determining federal adjusted gross income for Wisconsin

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## Law Changes

- **Economic Development Tax Credit**

- Tax years beginning January 1, 2014
- Credit may be transferred for consideration other than money
- Transfer must be certified by WEDC

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## Law Changes

### • Supplement to Historic Rehabilitation Credit

- For tax years beginning January 1, 2014
- Credit allowed for qualified rehabilitated buildings as defined in IRC 47(c)(1) (pre-1936 structures)
- Rates
  - 2012 – 5%
  - 2013 – 10%
  - 2014 – 20%

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## Law Changes

### • Supplement to Historic Rehabilitation Credit

- Credit may be sold/transferred
  - Transferee must be subject to tax
  - DOR must certify ownership of credit
  - New Form HR-T

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## Law Changes

### • Many targeted credits eliminated

- Tax years beginning January 1, 2014
  - Dairy manufacturing facility investment credit
  - Meat processing facility investment credit
  - Food processing plant and warehouse investment credit
  - Film production services credit

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## Law Changes

- **Many targeted credits eliminated**

- Tax years beginning January 1, 2014
  - Film production company investment credit
  - Beginning farmer and farm asset owner credit
  - Biodiesel fuel production credit
  - Dairy and livestock farm investment credit

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## Law Changes

- **Many targeted credits eliminated**

- Tax years beginning January 1, 2014
  - Ethanol and biodiesel fuel pump credit
  - Post-secondary education credit
  - Water consumption credit
  - Internet equipment credit

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## Law Changes

- **Many targeted credits eliminated**

- Tax years beginning January 1, 2014
  - Electronic medical records credit
  - Research facilities credit
  - Super research credit

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## Law Changes

- **Many targeted credits eliminated**

- Tax years beginning January 1, 2015
  - Health insurance risk-sharing plan assessment credit
  - Woody biomass harvesting and processing credit

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## Law Changes

- **Sales tax exemption for aircraft parts and repair**

- Effective July 1, 2014
  - Includes charges for repair, service, alteration, cleaning, fitting, painting, coating, towing, inspection, and maintenance
  - Sale of aircraft supplies (i.e., hydraulic fluid) still taxable

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## Law Changes

- **Sales tax exemption for fertilizer blending, feed milling, and grain drying equipment**

- Effective April 19, 2014
  - Includes machines, processing equipment, and building materials for holding structures
  - Machines and processing equipment were previously taxable unless used directly in farming or manufacturing

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## Law Changes

- **New Premier Resort Area Tax**

- Village of Stockholm - effective October 1, 2014
- Rate is 0.5%

- **Lake Delton and Wisconsin Dells rates increased from 1% to 1.25% effective July 1, 2014**

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## Other Issues

- **Continuous Levies**

- Wisconsin law amended to allow a levy to be either continuous or noncontinuous.
- Continuous levy - a levy that remains in effect until either the liability is satisfied or the levy is released
- Noncontinuous levy – a levy that is in effect on the date it is served on a third party

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## Other Issues

- **Continuous Levies**

- Continuous levy is limited to seizure from bank or other financial institution
- Revenue agents require supervisor approval before seeking continuous levy
- Once continuous levy issued, bank's initial response is due in 21 days with subsequent responses due every 30 days until bank remits full balance levied or levy is released

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## Other Issues

### • Continuous Levies

- Upon receipt of response, DOR sends bank a receipt for funds received, an updated balance, and new voucher for remitting next payment
- DOR can amend levy amount up or down for changes in delinquent balance

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## Other Issues

### • Itemized Deduction Credit

- Federal itemized deductions may be limited when computing WI credit
- Income over:
  - \$300,000 (married filing joint)
  - \$275,000 (head of household)
  - \$250,000 (single)
  - \$150,000 (married filing separately)

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## Other Issues

### • Itemized Deduction Credit

- Reduced by the lesser of:
  - 3% of the excess AGI over the above thresholds
  - 80% of the amounts otherwise allowable for the year

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## Other Issues

### • Itemized Deduction Credit

- Must use Wisconsin adjusted gross income based on Schedule I adjustments to federal AGI
- Applies to interest expenses (but not investment interest) and gifts to charity

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## Other Issues

### • Itemized Deduction Credit

- Worksheet included in 2014 instructions
- Updated to be more user-friendly
- Clear instructions to carry federal information over to the WI worksheet
- Clarified amounts allowable for WI should be used in the calculation

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## Other Issues

### • Itemized Deduction Credit

- Update on DOR corrections to 2013 returns
  - All returns received prior to July 18, 2014, have been reviewed and adjustments sent if applicable
  - DOR will begin reviewing returns filed subsequent to July 18 with goal to complete adjustment notices before year end

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## Other Issues

### • Itemized Deduction Credit

- Update on DOR corrections to 2013 returns
  - 21,301 returns identified with potential error
  - 7,499 required review by auditor; remainder could be systematically eliminated
  - 4,078 notices mailed as of 9/30/2014 with approximately 400 remaining

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## Other Issues

### • Federal Audit Reports (CP2000s)

- DOR is finalizing business rules to expand automated notices for unreported wages, miscellaneous income, and pensions reported to DOR by the IRS
- Large number of notices expected to be sent before year end
- CP2000s affecting more complicated WI returns will still be adjusted manually by revenue agents
- DOR intends for automated notices to be processed each time DOR receives a file of CP2000 data from the IRS (approximately six times per year)

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## Other Issues

### • Form 6 – New Combined Return

- Tax practitioners offered suggestions since combined reporting started in 2009
- DOR met with members of business community in 2013 for suggestions
- Form 6 was developed in early 2014

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## Other Issues

### • Combined Return – Major Changes

- More user friendly and logical flow
- Columnar format – three members per page
- Column for elimination entries (only one elimination column required per combined group)
- Form 5 eliminated
- Form 4 - all non-combined corporations (both multistate and 100% WI corporations)

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## Other Issues

### • Combined Return – Forms and Schedules Eliminated

- Forms 4A – *Apportionment Data for Combined Groups*
- Form 4M – *Combined Group Member-Level Data*
- Form 4R – *Federal Taxable Income Reconciliation*
- Schedule V – *Additions to Federal Taxable Income*
- Schedule W – *Subtractions from Federal Taxable Income*

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## Other Issues

### • Combined Return – New Forms

- Form 6BL – *Net Business Loss Carryforwards for Combined Group Members* (formerly Part II of Form 4BL)
- Form 6CL – *Capital Loss Adjustment*
- Form 6CS – *Sharing of Research Credits*
- Form 6I – *Adjustment for Insurance Companies*
- Form 6Y – *Modification for Dividends*

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## Other Issues

### • Combined Return – Forms and Schedules Renamed

- Form 4A-1 = Form A-1 – *Single Factor Apportionment*
- Form 4A-2 = Form A-2 – *Multiple Factor Apportionment*
- Form 4N = Form N – *Nonapportionable Income*
- Schedule V = Form 4V – *Additions*
- Schedule W = Form 4W – *Subtractions*

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## Other Issues

### • Combined Return – Form 6

- Draft versions of forms/schedules available:  
[revenue.wi.gov/html/taxforms14.html](http://revenue.wi.gov/html/taxforms14.html)

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## Other Issues

### • Manufacturing & Agriculture Credit

- Credit applies against taxes on income from manufacturing and agriculture activity in Wisconsin
- Phased in over four years:
  - Tax year 2013 = 1.875%
  - Tax year 2014 = 3.750%
  - Tax year 2015 = 5.526%
  - Tax year 2016 and beyond = 7.500%
- Offsets top tax rates of 7.90% (corporate income tax) and 7.65% (individual income tax)

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## Other Issues

### • Manufacturing & Agriculture Credit

- Nonrefundable – 15-year carryforward
- Credit computed is income in the year after the year the credit is computed
- Credit is not shareable with other combined group members

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## Other Issues

### • Manufacturing & Agriculture Credit

- Property must be located in Wisconsin
- Property must be assessed as manufacturing or agricultural
- Must produce qualified production activities income from that property

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## Other Issues

### • Manufacturing & Agriculture Credit

- Pass-Through Entities
  - Credit computed at entity level
  - Credit passes through to shareholders, partners, or members
  - Credit must be allocated to shareholders, partners, or members in proportion to their ownership interests

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## Other Issues

### • Manufacturing & Agriculture Credit

- New Schedules for 2014
  - Schedule MA-A – for agriculture activities
  - Schedule MA-M – for manufacturing activities
- New checkbox for 2014
  - 100% WI activities – No need to compute manufacturing property or agriculture property factor

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## Other Issues

### • Manufacturing & Agriculture Credit

- Income Limitation for Corporations
  - Lesser of the following:
    - Eligible qualified production activities income
    - Income apportioned to Wisconsin, or
    - Income taxable to Wisconsin as determined by Wisconsin's combined reporting law, if corporation is member of Wisconsin combined group

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## Other Issues

### • Manufacturing & Agriculture Credit

- Limitation for non-corporate claimants (new for 2014)
  - Credits may only offset tax imposed upon business operations on which credit was computed
  - Shareholders, partners, or members of pass-through entities may only offset tax imposed on person's prorated or distributive share of pass-through entity's income

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## Other Issues

### • Manufacturing & Agriculture Credit

- Startups and Relocated Businesses
  - Property must be assessed as manufacturing as of January 1, 2014, to claim the credit for TY2014
  - Need to request manufacturing classification on or before March 1, 2013, for property to be assessed on January 1, 2014
  - Use Form PA-780 to request manufacturing classification from Division of State and Local Finance

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## Other Issues

### • Manufacturing & Agriculture Credit

- Q Is property that is exempt from property taxes included in the numerator of the manufacturing property factor for purposes of computing the manufacturing and agriculture credit?
- A Yes. Real and personal property assessed under sec. 70.995, Wis. Stats., means property that has been classified as manufacturing property, regardless of whether or not a property tax exemption applies.

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## Other Issues

### • Manufacturing & Agriculture Credit

- Property Factor
  - Numerator - Property that is assessed in WI and used to manufacture or produce, grow, or extract qualified production property
  - Denominator - All property used to manufacture or produce, grow, or extract qualified production property

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## Other Issues

### • Manufacturing & Agriculture Credit

- Example: Taxpayer manufactures products in MN and WI separately
  - Production gross receipts only include receipts from sales of products manufactured in WI
  - Property factor
    - Numerator includes WI real and personal property
    - Denominator includes WI real and personal property
    - Property factor does not include MN property because qualified production property was not produced in MN

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## Other Issues

### • Manufacturing & Agriculture Credit

- Example: Taxpayer begins manufacturing process in IL and finishes the product in WI
  - Production gross receipts includes sales of products manufactured in WI (even though part of the product is manufactured in IL)
  - Property factor
    - Numerator includes WI real and personal property
    - Denominator includes both IL and WI real and personal property
    - Property factor includes IL property because product was manufactured, in part, in WI

89

## Other Issues

### • Manufacturing & Agriculture Credit

- Q Do I use my property tax bills to determine the average value of real property on lines 12 and 13 of Schedule MA?
- A No. The property value is based on the original cost of the property provided on a real estate closing statement, purchase invoice, or similar document.

90

## Other Issues

### Manufacturing & Agriculture Credit

- Q Are crop damage insurance proceeds included as production gross receipts?
- A No. The proceeds were not from producing, growing, or extracting tangible personal property, they are not considered qualified production activities income.
- Only the direct costs relating to crops which are sold (i.e., are included as production gross receipts) are included on line 3, Part II of Schedule MA
  - DOR will allow taxpayers to make reasonable allocation of direct costs related to crop insurance proceeds

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## Other Issues

### Manufacturing & Agriculture Credit

- Q Does the sale of a farm equipment used to produce qualified agricultural products qualify as production gross receipts?
- A No. The sale of farm equipment is not the sale of qualified production property - tangible personal property produced, grown, or extracted on or from property assessed as agricultural property.

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## Other Issues

### • Manufacturing & Agriculture Credit

- Q What amount is included as production gross receipts from the gain on the sale of raised cattle (Note: 60% of capital gain is excluded from WI taxable income)?
- A Production gross receipts from the sale of raised cattle should be included based on the total gross proceeds from the sale, not the net gain from the sale.

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## Other Issues

### • Manufacturing & Agriculture Credit

Q Are guaranteed payments to partners considered a direct expense when calculating the manufacturing and agriculture credit?

A Yes, provided the guaranteed payments represent payments to a partner for services that are directly connected with producing the manufacturing or agriculture production gross receipts

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## Other Issues

### • Manufacturing & Agriculture Credit

Q Is farm income that is allocated from a cooperative to its members on a federal Form 1099-PATR (patronage dividends) included in production gross receipts?

A If the income allocated to the farmer from a cooperative on federal Form 1099 is derived from production gross receipts in Wisconsin, that portion of the income can be included on line 1 of Wisconsin Schedule MA as production gross receipts.

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## Other Issues

### • Manufacturing & Agriculture Credit

- All direct and indirect ordinary and necessary business expenses paid or incurred during taxable year in computing Wisconsin taxable income must be included in computation of qualified production activities income (e.g., depreciation, interest expense, etc.)

Note: Indirect costs are included to extent of the production gross receipts factor

- Whether an expense is direct or indirect is based, in part, on taxpayer's accounting records

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## Other Issues

### • Manufacturing & Agriculture Credit

- More Information
  - Go to Fact Sheet 1107 on the department's website and click on the link to Common Questions (keywords – manufacturing credit)

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## Other Issues

### • Information Return Requirements

- Copies of all wage statements (W-2, W2-G, 1099-R and 1099-MISC) must be sent to DOR
- Wage statements must equal those reported on Form WT-7
- Payroll vendors must send full sets to IRS and Department of Revenue

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## Other Issues

### • Information Return Requirements

- DOR no longer waives wage statements requirement if . . .
  - there is no Wisconsin withholding to report, and
  - Forms W-2, Forms 1099-R and 1099-MISC were sent to the SSA/IRS

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## Other Issues

### • Information Return Requirements

- 2014 Wage statements are due to DOR by January 31, 2015
- 2014 Wage statements are due to IRS by February 28, 2015

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## Other Issues

### • Information Return Requirements

- Ensuring the information sent in matches the information reported by the payee
- Required information
  - 15 digit Wisconsin withholding number
  - Nine digit FEIN
  - Legal name must match number

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## Other Issues

### • Information Return Requirements

- Electronic if greater than 50
  - Publication 117, *Guide to Wisconsin Wage Statements and Information Returns*
- Paper allowed if less than 50
  - DOR will not accept text lists – must be in form format
  - Data must be in similar location of federal form on IRS website

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## Other Issues

### • Information Return Requirements

- No more than four statements or returns per page
- Page no larger than 8.5"x11"
- Page no smaller than 2.75" high or 4.25" wide

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## Other Issues

### • Information Return Requirements

- Do not send
  - WT2
  - WT7 already electronically filed
  - Federal 1096 transmittal form
  - Correspondence
  - Returns not changing with W-2c

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## Other Issues

### • Information Return Requirements

- Do not send
  - Forms W-2 with no Wisconsin connection if paper filing
  - Old version of WT-7
  - CDs, magnetic tape or transmit non-SSA PDFs
  - 1099-DIV or 1099-INT if no Wisconsin withholding (do not include on WT-7)

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## Other Issues

### • Information Return Requirements

- If requirements are not followed:
  - Electronic returns will reject for incomplete or incorrect information - reject reason will be provided with instruction to correct and resubmit
  - Paper returns with incomplete or inaccurate information will not be returned - letter will be sent asking to correct and resubmit

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## E-File Update

### • Information Returns

- E-File Options
  - Social Security Administration PDF transmission
  - EFW2 Transmission
  - *My Tax Account*

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## Other Issues

### • One Stop Business Registration (OSB)

- DOR is participating with Department of Financial Institutions and Department of Workforce Development on statewide web portal centralizing business registration
- OSB will collect information from the applicant and pass that information to departments' existing databases for processing

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## Other Issues

### OSB Phase I



- Domestic corporations and limited liability companies
- All DOR permits except excise tax

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## Other Issues

### • OSB Benefits

- Streamline business startup process
- Connect businesses to the resources they need in one place
- Eliminate need for multiple application and multiple entries of similar data use by all agencies

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## Other Issues

### • One Stop Business Registration

- Implementation expected before year end
- Can connect from wisconsin.gov or participating agency websites

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## Other Issues

### • Unclaimed Property

- Unclaimed property program moved from Office of the State Treasurer to DOR in mid-2013
- Legislature moved 6.25 of 10.75 positions to DOR for claims processing, holder reporting, and property maintenance
- Staff turnover coupled with high number of claims resulted in increased inventories this past summer that are now at normal levels
- No claim has exceeded recommended 90-day maximum processing time set forth in statute

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## Other Issues

### • Unclaimed Property

- Unclaimed property system will be moved to DOR's integrated tax system
- Benefits
  - Electronic filing for claimants and holders
  - Integrated correspondence and immediate access to incoming mail by customer service staff
  - Automated claims processing

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## Other Issues

### • Unclaimed Property

- Beginning July 1, 2015, DOR will return unclaimed property to its owner, without the owner having to file a claim, if the value of the property is \$2,000 or less and DOR can identify and locate the owner through tax return information
- DOR will first setoff the unclaimed property against any debt owed to DOR

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## Other Issues

### • Same Sex Married Couples

- On October 6, 2014, U.S. Supreme Court denied Wisconsin's petition for certiorari in *Walker v. Wolf* regarding the ban on same-sex marriage
- DOR recognizes same-sex marriage as legal in Wisconsin
- Couple is considered married for the whole year if they were lawfully married as of December 31
- Lawfully married means a valid marriage in a state that recognizes same-sex marriage

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## Other Issues

### • Same Sex Married Couples

- 2014 individual income tax returns
  - A lawfully married same-sex couple must file as married filing jointly, married filing separately or, if qualified, as head of household
- 2013 and prior returns filed on or after October 16, 2014
  - A lawfully married same-sex couple must file as married filing jointly, married filing separately or, if qualified, as head of household

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## Other Issues

### • Same Sex Married Couples

- 2013 and prior returns filed before October 16, 2014
  - A lawfully married same-sex couple who already filed their tax returns, may choose (but are not required) to amend their Wisconsin tax returns using Form 1X, claiming a filing status of married filing jointly, married filing separately or, if qualified, as head of household
  - Prior returns may be amended as long as the period of limitations has not expired
- Schedule S should no longer be filed with a Wisconsin tax return

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## Other Issues

### • Affordable Care Act

- Requires basic health insurance coverage
  - Federal fines for employers failing to provide required coverage
    - Penalty not deductible – federal and WI
  - Federal fines for individuals without required coverage
    - No equivalent Wisconsin tax/penalty

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## Other Issues

### • Affordable Care Act

- Federal tax credit for small businesses offering health insurance
  - Federal – credit reduces insurance expense
  - Wisconsin – may deduct entire amount of insurance expense

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## Other Issues

### • Affordable Care Act

- Federal tax credit for individuals who purchase health insurance through an Exchange
  - Federal – credit reduces itemized deduction
  - Wisconsin – credit reduces itemized deduction and no medical care insurance subtraction allowed for amount of credit

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## Other Issues

### • Affordable Care Act

- Additional 0.9% Medicare Tax
  - On wages or self-employment income above certain amounts
  - Federal - Not included in deduction for employer portion (1/2) of self-employment tax
  - Wisconsin - same

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## Other Issues

### • My Tax Account

- Email address update
  - All users are required to update email addresses when logging on to MTA for first time after September 15, 2014
  - Will insure account masters and managers will receive e-mail reminders, etc.

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## Other Issues

### • My Tax Account

- Action Item Locations
  - Most action items
    - On top right under "I WANT TO . . ."
    - » Includes action items on Home Page and Account Levels
  - Action remaining on left of the page
    - » File a return
    - » Make a payment
    - » Submit

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## Other Issues

### • My Tax Account

Account ID	Account Type	Name	Frequency	Address	Balance	Status
036-1026844056-04	Withholding	TEST ACCOUNT INC.	Quarterly	2135 RIMROCK RD MADISON	0.00	Ceased
096-1026844056-06	Corporation	TEST ACCOUNT INC.	Annual	2135 RIMROCK RD MADISON	0.00	Ceased
406-1026844056-02	Sales & Use	TEST ACCOUNT INC.	Quarterly	2135 RIMROCK RD MADISON	0.00	Ceased
606-1026844056-03	BTX	TEST ACCOUNT INC.	Semiannual	2135 RIMROCK RD MADISON	0.00	Ceased
806-1026844056-05	PalcosFile	TEST ACCOUNT INC.	Monthly	2135 RIMROCK RD MADISON	0.00	Ceased

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## Other Issues

### • My Tax Account Security Reminder

- DO NOT share logon ids
- Only persons with registered logon ids will be given *My Tax Account* support when contacting DOR for password reset, account maintenance and filing and payment issues
- Sharing logon ids removes accountability for action(s) or lack of action(s) in *My Tax Account*

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## Other Issues

### • My Tax Account Resources

- MTA Videos
  - Overview, Sales & Use Tax, Withholding, Other Payments and Third Parties
- New Business MTA Webinars
  - The second Tuesday of even numbered months, 9:30-11:30 a.m.
- MTA Annual Filers Webinar
  - January 6 and 13, 2015

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## Homestead Credit

### • IRC update

- Notice 2014-7
  - Difficulty of care payments excludable under § 131 of the IRC
  - Also are not included in household income for the homestead credit

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## Homestead Credit

### • WI Update

- Net operating loss carrybacks
  - Amounts subtracted for any WI NOL carryback must be included in household income for homestead credit
  - Add back is on line 11e of Schedule H with NOL carryforwards and capital loss carryforwards
- Source: 2013 Act 20, amend sec. 71.05(8)(a) and (b), effective for taxable years beginning on or after January 1, 2014.

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## Homestead Credit

### • Rent Certificate

- New layout for 2014
  - Two pages
    - Second page has the Shared Living Expense Schedule
  - More white space
  - Easier for landlords to complete

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## Homestead Credit

- **Rent Certificate**

- Landlord section – what if the rent certificate is unsigned?
  - Your client should complete the lines on the rent certificate
  - Rent verification should be sent with the return
    - Canceled checks (front and back)
    - Money order receipts

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## Homestead Credit

- **Rent Certificate**

- [illegible]

Print Form 1041-ES (Instructions) **Name** Sample Taxpayer **SSN** 123-45-6789 **Page** 8 of 8

**123 Anywhere Dr, Anytown, WI 55555**

**Shared Living Expenses Schedule** To complete this schedule, enter on line 1 your name and the account(s) that do not pay an amount for the living expenses.

**Step 1** List all accounts other accounts.

**John Doe**

**Step 2** List the total amount and the monthly amount of each account. Enter the total amount on line 2 and the monthly amount on line 3. Enter the total amount and the monthly amount that you pay on line 4.

Account name	Total monthly amount	Monthly amount you pay
Rent	6,000.00	3,500.00
Food	1,000.00	1,000.00
Utilities	1,000.00	500.00
<b>Total</b>	<b>8,000.00</b>	<b>5,000.00</b>

**Step 3** Using the amounts entered in Step 1, complete your alternative net payment calculation on line 5. Enter the amount on line 5.

**Total net payment (line 5)** 6,000.00

**Total shared living expenses (line 6)** 4,500.00

**Total shared living expenses (line 7)** 10,000.00

**Line 8** Enter the amount of the alternative net payment on line 8. If it is 0, enter 0.

**Monthly net payment (line 9)** 450.00

**Value of food and services provided to you (line 10)** 2,700.00

**Value of food and services provided to others (line 11)** 0.00

**Total net payment (line 12)** 2,700.00

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## Homestead Credit

- **Rent Certificate**

- What causes DOR not to accept a rent certificate submitted?
  - Alterations
  - Cross outs
  - Erasures
  - White out

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## Homestead Credit

### • Most Common Errors

- Preparation errors
  - Missing household income
  - Forgetting to reduce rent/taxes
  - Claiming the credit on the Form 1 or 1A but not including Schedule H at the time of filing

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## Homestead Credit

### • Most Common Errors

- Missing Form W-RA attachments
  - WI income tax return, if applicable
  - Copy of federal tax return, if applicable
  - Forms W-2
  - Tax bill or rent certificate
  - Explanation of how rent is paid if low or no income reported

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## Homestead Credit

### • Most Common Errors

- Missing household income items
  - Social Security, Supplemental Security Income (**both** federal and WI), and caretaker supplement payments
  - Wisconsin Works (W2) payments
  - Child support
  - Pension and annuities (including VA pension/benefits)

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## Homestead Credit

### • Most Common Errors

- Missing household income items
  - Deferred compensation contributions (Form W-2, Box 12)
  - Depreciation (all types)
  - Scholarships, fellowships, and grants (even if used for school-related expenses)
  - Nontaxable capital gains and gains excluded from sale of home

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## Homestead Credit

### • Most Common Errors

- Property tax bill items
  - **No tax bill** (#1 most common error!)
  - Address on tax bill is different than claim – no explanation submitted
  - Multiple owners or claimant not listed as owner – no explanation/documentation submitted

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## Homestead Credit

### • Most Common Errors, continued

- Rent Certificate items
  - **No rent certificate** (#2 most common error!)
  - No dates of occupancy listed
  - Number of occupants line is blank
  - No Shared Living Expense Schedule completed
  - No landlord signature and no rent verification submitted

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## Homestead Credit

### • Most Common Errors

- Electronically filed return errors
  - Tax bill or rent certificate information is incorrect/incomplete
  - No homestead notes page is sent
  - The W-RA attachments are not submitted or are in improper format

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## Homestead Credit

### • Most Common Errors

- Errors delay your client's refund
  - May write your client for the missing information
  - May adjust or deny your client's refund

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## Homestead Credit

### • Most Common Errors

- How can you help reduce errors?
  - Double check the claim before submitting
  - Send notes or explanations if applicable
  - Mail in Form W-RA in timely manner or attach documents electronically in proper file format

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## Homestead Credit

### Submit with Form W-RA\*

Form Type & Filing Method	Federal Return	Wisconsin Return	Rent Cert or Tax Bill	W-2, 1099-R, 1098-T, etc.	Other documents or notes
Form 1 w/HC Fed/State e-File	No	No	Yes	Yes	Yes
Form 1 w/HC WI e-File	Yes	No	Yes	Yes	Yes
E-file Sch H alone (Fed/State or WI e-File)	Yes	Yes	Yes	Yes	Yes

\*If not electronically attached when e-filed

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## Homestead Credit

### • Checking Refund Status

- Wait eight weeks after filing before contacting the department about refund
- If a claim is selected for review, it may take more than eight weeks to process refund

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## Homestead Credit

### • Checking Refund Status

#### ▪ Online:

- [www.revenue.wi.gov](http://www.revenue.wi.gov)
- Online Services -
- "Where's My Refund"



#### ▪ By Phone:

- (608) 266-8100 (in Madison)
- (414) 227-4907 (in Milwaukee)
- 1-866-947-7363 (toll-free)

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## Homestead Credit

### • Resources

- Homestead Credit phone line
  - (608) 266-8641
- E-mail: DORHomesteadCredit@revenue.wi.gov
- Homestead Credit website
  - www.revenue.wi.gov/individuals/homestead.html
  - Links to the instruction manual and Publication 127
  - Information on Homestead Credit claim process from start to finish

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## DOR Resources

### • Practitioner Assistance

- Email: dortaxpractitioners@revenue.wi.gov
- Phone:
  - 608-261-5199

**\*\*Do Not Share This Information\*\***

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## DOR Resources

### Speaker Contact Information

#### Diane L. Hardt

Division Administrator  
608/266-6798  
diane.hardt@revenue.wi.gov

#### Vicki Gibbons

Deputy Administrator  
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#### Jennifer Eberhardy

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#### Erin Egan

Tax Operations Director  
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erinb.egan@revenue.wi.gov

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