

SOME IMPORTANT ITEMS TO CONSIDER ON YOUR 2014 RETURNS

Adoption WI does not have a credit but instead a \$5000 deduction per child. This is taken in the year the adoption is finalized but may include expenses of the prior two years also.

Amended Wisconsin returns can be e-filed.

Basis Property that has a different federal and WI basis as of 12/31/2013 (because of bonus depreciation or 179 expensing) will have an adjustment for the next five years (2014-2018) equal to 20% of the difference in basis. This is combined for all items and continues even if an item is disposed of. If the 12/31/2013 basis of WI property is greater than the federal, there will be a subtraction (Code 33). If the federal 12/31/2013 basis is greater than the WI there will be an addition (Code 18).

For sales after 12/31/2013 the federal and WI basis will be the same.

Beginning farmer and farm asset owner will be available for tax years beginning on or after January 1, 2010. 2013 was the last year for this credit.

Bonus depreciation is not allowed for Wisconsin.

Capital gain exclusion has been reduced from 60% to 30% (now 70% of the gain is taxable to Wisconsin.) The old rule applies for farm assets inherited or farm assets owned over one year.

Casualty losses directly related to federal declared disaster after January 1, 2009 may be used in computation of the itemized deduction credit.

Child care subtraction will be available when the federal credit is claimed. The credit is up to \$3000 if there is one qualified individual or up to \$6000 if more than one. A copy of the federal 2441 must be attached to the return.

College savings plan (EdVest or Tomorrow's Scholar) contributions can be deducted up to \$3050 per student by the owner of the account or parent, grandparent, great-grandparent, aunt or uncle. Only one \$3050 subtraction per beneficiary on a joint return. Attach Schedule CS.

Combat zone related deaths Income received by an active duty member of the US Armed Forces in the year they are fatally injured is subtracted from income. Must be on an original return.

Dairy and livestock farm investment credit carryover may continue to be used. Attach Form CF

Deemed Depreciation for Homestead purposes, if the standard mileage rate has been used, is 22 cents for 2014.

Department of Revenue can charge the cost of offsetting federal tax liens.

Depreciation of farm equipment remains at 7-15 years. Qualified leasehold and restaurant and retail improvement property remain under the longer depreciation periods. Depreciation rules for 2014 will follow IRS Code on 01/01/2014 (not 2000 anymore).

Development Opportunity Zone has been created in the city of Beloit. Anyone with a development project in this area needs to submit a plan to the WI Economic Development Corporation.

Discharge of indebtedness, even for personal residence, is taxable income for Wisconsin.

Doing business in Wisconsin now includes any business that does business in Wisconsin for any part of the year. This will constitute doing business for the entire year.

Domestic production activities deduction does not apply.

Donations to Badger Red Cross are available for 2014. All symbols for the charitable organizations are eliminated. Starting in 2014, the charity must generate \$75,000 in contributions on the tax returns to remain on the tax form.

Earned Income Credit For one child the rate remains at 4%, for 2 children the new rate is 11% and for three or more the new rate is 34%. The federal 8867 needs to be attached to WI also.

Educator adjustment for books and supplies purchased does not apply for Wisconsin.

Election worker wages are exempt from federal and WI withholding and should be reported on Form W-2, not 1099.

Electronic filing of W2s and 1099s is required by anyone filing 50 or more per type.

Employer provided adoption assistance is the same as federal for 2013-\$12970. The adoption subtraction is a maximum of \$5000 for Wisconsin.

Estimated tax payments may be verified at <https://ww2.revenue.wi.gov/paymentinquiry.request.html>. You will need the SSN and amount of one of the last three payments made or amount of WI income from last year's return.

Beginning in 2014, expensing for Wisconsin will be the same as federal.

Failure to produce records when requested by the DOR will be equal to the greater of \$500 or 25% of additional tax or any adjustment made by the department. This rule became permanent on April 1, 2010.

No new claims for Farmland Preservation Credit may be claimed for years beginning on or after January 1, 2010 unless covered by agreements in effect on July 1, 2010. A new refundable credit (FC-A) with new computations has been developed (10/A if zoned ag and a farmland preservation agreement, 7.50/A if in a agriculture zoned area, or 5/A if an agreement has been signed. This is income in the year received.

Farm Loss Limitations ended 12/31/2013. Any unused carryovers may be deducted in 2014 subject to net profits and net gains from sale of assets in the same farming business.

Financial Record matching program has begun with the DOR entering into agreements with financial institutions operating in Wisconsin for electronic data exchange of account information for delinquent taxpayers.

Flexible spending accounts WI follows federal with a lower maximum of \$2500.

Gain deferred on sale of capital assets if the money is reinvested in qualified new business venture within 180 days after the sale. The gain must be long term and the qualified new venture must be certified by the WI Economic Development Corp.

Gain on sale of residence after death of a spouse can only be excluded to \$250,000.

Gambling winnings and expenses Wisconsin is following the gambling session idea of relating expenses to winnings and being able to report less than the W-2G on line 21. Detailed records showing all bets must be contemporaneously kept.

Government payments the 1099-G for 2013 state tax refunds will only be mailed to those who filed a paper tax return last year. View the form online at <http://www.revenue.wi.gov/eserv/Form1099G/>.

Head of Household filing status if married (abandoned spouse) must include name and Social Security number of spouse. Also for 2014 this taxpayer must check both "head of household" and "married" status on the same line next to the arrow for filing status.

Health insurance premiums for the adult child of the insured is not taxable income of the insured even if the child is not eligible to be a dependent of the insured. This does not apply to domestic partners unless the partner may be claimed as a dependent.

Health Savings Account is a deduction for Wisconsin the same as federal. Withdrawals for non-medical reasons are not taxed to Wisconsin if the contribution was made before 2011 and medical withdrawals are eligible for the medical expense deduction on the itemized deduction credit. If the withdrawal is from deductible contributions, the amount not used for medical purposes, is taxable to Wisconsin also and subject to a WI penalty equal to 33% of the federal 20% penalty.

Homestead Credit The maximum income is 24680 with the maximum tax 1460. The deduction from household income, for dependents, remains at \$500.

Human Organ Donation Up to 10,000 of travel, lodging and lost wages may be deducted if a human organ is donated to another person.

Identity Theft There is a new program to protect taxpayers from identity theft. Suspected return, the taxpayer will receive a letter from the DOR with instruction to call or answer on line four questions to prove the taxpayer's identity.

Income tax rates are reduced for 2014. The lowest rate is now 4.0 and the highest 7.65.

IRA distribution transferred to charity is taxable to Wisconsin but then may be used as a charitable contribution for the itemized deduction credit.

Interest paid on refunds is reduced to 3% effective 7/2/2013 for all taxes, filing dates and taxable periods.

Itemized Deduction Credit If the taxpayer is subject to the itemized deduction phase-out on federal, they are also subject to the phase-out on Wisconsin.

Late filing fees are in effect: \$50 for individual, \$150 for corporation, \$50 for withholding report/deposit. Negligence penalty of 5% per month up to 25%

Manufacturing and Ag Credit Effective 01/01/2013. Individuals, estate, trust, partnership, LLC, corporation owns or rents and uses WI real property and improvements assessed as Ag property or owns or rents and uses WI real and personal manufacturing property. Pass through entities must pass credit to owners. For 2014, this credit may only offset tax of the business operations.

Medical care insurance

If someone received Cobra assistance or federal premium assistance for their health insurance, only the premiums not reimbursed are eligible for the medical insurance deduction.

A loss on self-employment does not get added to other earned income just for determining the health insurance subtraction.

If the insurance was purchased on the exchange, the deduction is based on the actual premiums paid by the taxpayer after any subsidy.

The medical care insurance subtraction is now the same for all taxpayers.

If the taxpayer is neither an employee nor self-employed, 100% of the premiums may be a Wisconsin subtraction.

If the taxpayer is an employee whose employer pays part of the premiums, 100% of the premiums are used for the subtraction.

If the taxpayer is an employee whose employer pays none of the premiums, 100% of the premiums are used for the subtraction.

Medical itemized deductions subject to the 10% floor just as federal (7.5% for 65)

Medicare premiums for 2014 are 104.90/month or 1258.80/yearly. Higher incomes may have higher premiums.

Mortgage insurance premiums cannot be treated as interest and cannot be used in the computation of the Wisconsin itemized deduction credit. No schedule I required for 2014

Negligent claims for refund are subject to a penalty of 25% of the difference between the correct and claimed refund. Fraudulent claims are subject to a penalty of 100% of the difference and also considered a felony with a fine up to \$10,000 or up to 6 years in prison or both.

Net operating losses. For 2014 the loss may be carried back two years and then forward 20 years (up from 15 years). Carryforward of losses from before 2014 can only continue to be carried forward.

Nonqualified use of residence does not apply for Wisconsin.

Nonresident spouses of military members who are employed in Wisconsin while accompanying the military person are exempt from Wisconsin withholding on income for services performed in Wisconsin (Need to submit form W-221 to their employer.)

Non- and part-year resident returns (INPR) can be e-filed (subject to certain types of income). There will also be Schedule M to report additions and subtractions to income.

Offer in compromise for WI is requested on form A-212 and filed in duplicate. WI will act in 30-45 days.

Partnership requirement of married couple who own and operate a business in Wisconsin remains in effect

Postsecondary education credit is available for employers that reimburse graduating employees for WI college tuition. Form PE Eliminated as of 01/01/2014

Practitioner assistance available at dortaxpractitioners@revenue.wi.gov 608-261-5199
DO NOT SHARE THIS NUMBER WITH TAX CLIENTS

Qualified business may register with DOR in 2014. The business must have at least 2 full-time employees, at least 50% of all payroll must be WI payroll, and at least 50% of all real and personal property must be located in WI. The investors are eligible for deferral or exclusion of some long-term gains.

Qualifying widow (-er) is not a filing status for Wisconsin. May use head of household.

Railroad Retirement and Railroad Unemployment are not taxable to Wisconsin

Real estate taxes for the school property tax credit do not include special assessments such as garbage pickup.

A relocated business tax credit or deduction is available for businesses which relocate to Wisconsin from out-of-state, and have not done business in Wisconsin for the prior two years. This ends 12/31/2013. A fiscal year taxpayer whose year begins before 1/1/14 is still eligible for this last fiscal year.

Reserve and National Guard members may exclude wages taxable to federal that are for service after being called to active duty.

Retailers' sales tax filing frequency has been changed. Must file monthly only if quarterly tax due is more than \$1200. Quarterly only if annual tax due is over \$600.

Retirement benefits or IRA withdrawal of low-income taxpayers are not taxable on the first \$5000. The person must be at least 65 years of age and have a federal AGI of less than \$15000 (S) and \$30000 (MFJ). Of course the retirement needs first to be taxable to Wisconsin, e.g. military retirement benefits are already not taxable. (It has been determined that this exclusion is mandatory, thereby closing a loophole for Homestead Credit.)

Some Retirement benefits are not taxable to Wisconsin

- Military and uniformed services

- WI state teachers if a member of system on 12/31/1963

- Federal civil service if a member of system on 12/31/1963

- Some Milwaukee city and county employees if a member of system on 12/31/63

- Railroad retirement

Retirement plan distributions rolled over to a Roth IRA are taxed the same as federal.

Sales and use tax line on the tax return must be checked if there is not any out of state purchases to report.

Same sex marriages are recognized by WI.

Small Business Stock eligible for federal 50% or 100% exclusion of gain on sale will be eligible for WI exclusion in 2019. The stock must be purchased after 12/31/2013 and be held at least 5 years.

Social Security benefits are not taxable to Wisconsin.

Standard deduction for Wisconsin is the amount from the table with no adjustment for sales tax on a new vehicle.

Standard deduction table will only be adjusted upward for a change in indexing, never downward.

Start-up expenses remain at \$5000 deductible in the first year.

Super research and development credit is available for corporations. For 2014 also available to S-corps, partnerships and sole proprietors. This is non-refundable, must be added to income and flows through to shareholders and partners.

Transportation benefits that increased as tax-free fringes for federal purposes remain the same for Wisconsin (maximum of \$130/month.) There is no increase for transportation and transit passes and no benefit allowed for bicycle commuting.

Tuition, not course materials, continues to not be an adjustment to income or a credit as allowed by the federal return. Instead there is a tuition subtraction allowed if the student is attending classes in Wisconsin or under the MN-WI reciprocity agreement. This subtraction is a maximum of \$6940 per student but the income phase out limits are adjusted for inflation (51,620-61,940 for S or HOH, 82,590-103,240 for MFJ and 41,300-51,620 for MFS).

Tuition for private schools may be subtracted starting for the 2014 tax year. For elementary students (K-8) the subtraction is up to \$4000 and up to \$10000 for secondary students (grades 9-12). Use Form PS

Underpayment penalty will be charged only if the balance due is over \$500

Unemployment compensation has a worksheet to determine taxability of the benefits for low-income taxpayers.

Volunteer Firefighter and EMS benefits are considered taxable income for Wisconsin purposes.

Veterans and surviving spouses property tax credit is limited to one acre same as Homestead. This credit is now available to unmarried surviving spouse of someone who was a WI resident at the time of entering the service or any consecutive 5 year period after entry into active service. Must be receiving dependency and indemnity compensation.

Wage statements (W-2, 1099-R, W-2G and 1099-Misc) must be sent to DOR not just if there is WI withholding. They are due to DOR by January 31, 2015.

Willful misclassification of construction contractors will cause a \$25,000 penalty for each violation of misclassification of employee status with intent to evade withholding tax requirement.

Wisconsin-Minnesota income tax reciprocity has ended so persons working in one state and living in the other will need to change their withholding and possibly start paying state tax estimates. There will be a survey on the front of the WI tax return to determine how many people are affected by this change.

WRA can be filed electronically. Just be sure to follow the instructions. If the WRA is mailed, the return must have been electronically filed and the form WRA attachments were not transmitted electronically. The mailed in WRAs will all be submitted to the Box 8977 address.