Smith & Gesteland LLP
accountants & consultants
FOCUS ON WHAT MATTERS

State of Wisconsin – General Tax Climate

Jacob Power

Smith & Gesteland, LLP

(608) 828-3118

jacob.power@sgcpa.com

General Tax Update

- No significant changes for tax year 2016
  - Any major changes will be included with 2017-2019 budget
- Maximum Rates
  - Corporate Income Tax – 7.9%
  - Individual Income Tax – 7.65%
  - Economic Development Surcharge
    - Corporations with gross receipts in excess of $4M
    - C Corp – 3% of Wisconsin income tax
    - S Corp – 0.2% of Wisconsin income
    - Partnership – Not subject to surcharge

General Tax Update

- Due dates remain unchanged for Corporations and Partnerships pending law change

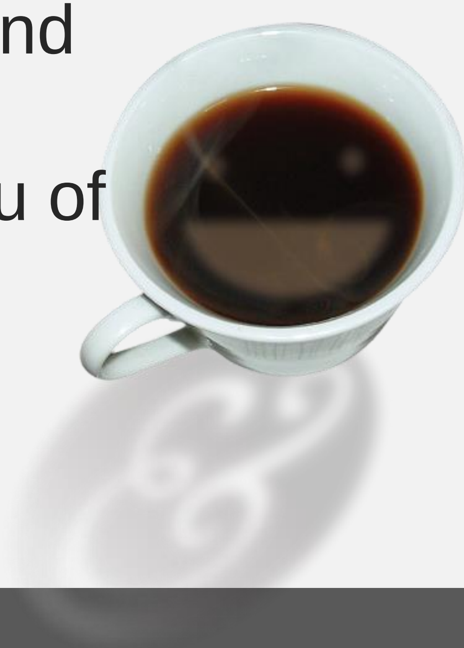
Wisconsin Tax Return Due Dates			
Entity Type	Calendar Year 1/1/16-12/31/16	Short Year 1/1/16-8/31/16	Fiscal Year 4/1/16-3/31/17
Corporation (Form 4, 6)			
Original Due Date[1]	March 15, 2017	December 15, 2016	June 15, 2017
Extended Due Date[2]	October 16, 2017	July 17, 2017	January 15, 2018
Partnership (Form 3)			
Original Due Date[3]	April 18, 2017	November 15, 2016	July 17, 2017
Extended Due Date[4]	September 15, 2017	May 15, 2017	December 15, 2017

General Tax Update

- Nexus Staff
  - Doubled staff focused on nexus issues to 16 individuals
  - Out-of-state entities that may have filing obligations
  - Wisconsin residents claiming credit for taxes paid to other states where voluntarily filing income tax return with no nexus

Combined Reporting

- Mandatory water's-edge combined reporting
- A corporation is required to use combined reporting if:
    1. It is a member of commonly controlled group;
    2. It is engaged in a unitary business with one or more other group members; and
    3. It meets the water's edge test
- May make controlled group election in lieu of meeting unitary business requirement



Combined Reporting

- Commonly Controlled Group
  - Common ownership (direct or indirect) of stock representing more than 50% of the voting power of each corporation in the group
- Unitary Business
  - A single economic enterprise made up of one or multiple related entities which are sufficiently interdependent, integrated, and interrelated through their activities so as to provide a synergy and mutual benefit that produces a sharing or exchange of value among them and a significant flow of value to the separate parts

Combined Reporting

- Water's Edge Test
  - Foreign corporations are not required to be included in the combined report if more than 80% of its worldwide income is "active foreign business income"
- Wisconsin follows the Finnigan rule for apportionment
- Wisconsin requires throwback of domestic sales of tangible personal property.
  - Throwback avoided if other group member has nexus in destination state

IC-DISCs

- Wisconsin does not follow the Federal's tax-exempt nature of IC-DISCs
- IC-DISCs that are viable corporations with substance and have nexus in Wisconsin are treated like any other corporation (buy-sell)
- IC-DISCs that do not carry on any substantial business activities have their income allocated to the corporation that earned the income(commission)

Wisconsin Manufacturing Credit

- Credit is fully phased in at 7.5% of manufacturing income occurring in Wisconsin for tax year 2016
- Effectively reduces Wisconsin tax rates on manufacturing income:
  - Corporations – 0.40%
  - Individuals – 0.15%
- Required to be assessed as a manufacturer for property tax purposes

Wisconsin Manufacturing Credit

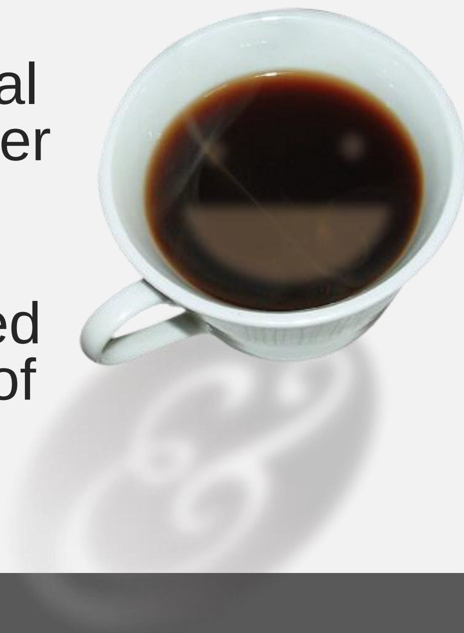
- If all manufacturing occurs in Wisconsin, manufacturing income should be determined based on that locations books and records
- If the manufacturing process begins in another state and ends in Wisconsin, or vice-versa, the total manufacturing income is apportioned between Wisconsin and the other state by the percentage of manufacturing property used in each state

Business Development Credit

- Incentive provided by Wisconsin Economic Development Corporation for companies located in or re-locating to Wisconsin to increase employment and economic growth
- Can be a refundable credit depending on agreement with WEDC

Business Development Credit

- Credit agreement as approved with WEDC can be based on the following:
  1. Up to 10% of wages paid to eligible employees
  2. In addition to #1, up to 5% of wages paid to eligible employees in economically distressed areas
  3. Up to 50% of training costs incurred to enhance employees workforce skills
  4. Up to 3% of personal property and 5% of real property capital investments (for projects over $1M)
  5. Percentage of wages paid to eligible employees if position was created or retained at corporate headquarters for performance of corporate functions



Qualified Wisconsin Business

- A business certified annually by the WEDC (2011-2013) or WI DOR (2014-current) that meets the following for the tax year ending immediately before the date of registration:
    1. The business has at least 2 full-time employees and the amount of payroll compensation paid by the business in Wisconsin is equal to at least 50% of the total payroll compensation; and
    2. The value of real and tangible personal property owned or rented and used by the business in Wisconsin is at least 50% of the total real and tangible personal property owned and rented.

Qualified Wisconsin Businesses

- **<u>Deferral of Gain</u>**
  - Long-term capital gain realized from the sale of assets may be deferred from Wisconsin income tax if reinvested in a “qualified Wisconsin business”
  - Must meet the following to qualify:
    1. Must incur a gain on the sale of capital asset that is treated as long-term under the IRC
    2. All of the gain must be invested in a “qualified Wisconsin business” within 180 days after the sale of the asset that generated the gain
    3. Must disclose deferral of the gain and reduction of new investment basis on Wisconsin Schedule CG attached to the Wisconsin income tax return
  - Only available to:
    1. Individuals
    2. Partners of a partnership
    3. Shareholders of a S corporation

Qualified Wisconsin Businesses

- **Exclusion of Gain**
  - For taxable years beginning after January 1, 2016, a long-term capital gain from an investment in a “qualified Wisconsin business” held for at least 5 years may be excluded from Wisconsin income tax
  - Excluded amount is limited to the gain in excess of any gain deferred at the time of the investment
  - Must meet the following to qualify:
    1. Must incur a gain on the sale of capital asset that is treated as long-term under the IRC
    2. Investment in a “qualified Wisconsin business” purchased after December 31, 2010 and held for at least 5 uninterrupted years
    3. Business invested in must be a “qualified Wisconsin business” for the year purchased and at least 2 of the following 4 years
  - Only available to:
    1. Individuals
    2. Partners of a partnership
    3. Shareholders of a S corporation

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