



2011 ASSEMBLY BILL 638

1 **AN ACT** *to repeal* 71.47 (5n) and 71.49 (1) (dn); *to renumber* 71.07 (5n) (d) and
2 71.28 (5n) (d); *to renumber and amend* 71.21 (4); *to amend* 71.05 (6) (a) 15.,
3 71.07 (5n) (title), 71.10 (4) (cr), 71.26 (2) (a) 4., 71.28 (5n) (title), 71.30 (3) (dn),
4 71.34 (1k) (g) and 71.45 (2) (a) 10.; *to repeal and recreate* 71.07 (5n) (a) and
5 71.28 (5n) (a); and *to create* 71.05 (6) (a) 25., 71.07 (5n) (d) 2., 71.21 (4) (b), 71.26
6 (2) (a) 11., 71.28 (5n) (d) 2., 71.28 (5n) (d) 3. and 71.34 (1k) (m) of the statutes;
7 **relating to:** technical changes to the qualified production activities income and
8 franchise tax credit.

Analysis by the Legislative Reference Bureau

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

9 **SECTION 1.** 71.05 (6) (a) 15. of the statutes, as affected by 2011 Wisconsin Act
10 32, is amended to read:

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1 71.05 **(6)** (a) 15. The amount of the credits computed under s. 71.07 (2dd), (2de),
2 (2di), (2dj), (2dL), (2dm), (2dr), (2ds), (2dx), (2dy), (3g), (3h), (3n), (3p), (3q), (3r),
3 (3rm), (3rn), (3s), (3t), (3w), (5e), (5f), (5h), (5i), (5j), (5k), ~~(5n)~~, (5r), (5rm), and (8r) and
4 not passed through by a partnership, limited liability company, or tax-option
5 corporation that has added that amount to the partnership's, company's, or
6 tax-option corporation's income under s. 71.21 (4) or 71.34 (1k) (g).

7 **SECTION 2.** 71.05 (6) (a) 25. of the statutes is created to read:

8 71.05 **(6)** (a) 25. The amount computed under s. 71.07 (5n) in the previous
9 taxable year and not passed through by a partnership, limited liability company, or
10 tax-option corporation that has added that amount to the partnership's, company's,
11 or tax-option corporation's income under s. 71.21 (4) (a) or 71.34 (1k) (m) and not
12 included in federal adjusted gross income.

13 **SECTION 3.** 71.07 (5n) (title) of the statutes, as created by 2011 Wisconsin Act
14 32, is amended to read:

15 71.07 **(5n)** (title) ~~QUALIFIED PRODUCTION ACTIVITIES~~ MANUFACTURING AND
16 AGRICULTURE CREDIT.

17 **SECTION 4.** 71.07 (5n) (a) of the statutes, as created by 2011 Wisconsin Act 32,
18 is repealed and recreated to read:

19 71.07 **(5n)** (a) *Definitions.* In this subsection:

20 1. "Agriculture property factor" means a fraction, the numerator of which is the
21 average value of the claimant's real property and improvements assessed under s.
22 70.32 (2) (a) 4., owned or rented and used in this state by the claimant during the
23 taxable year to produce, grow, or extract qualified production property, and the
24 denominator of which is the average value of all of the claimant's real property and

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1 improvements owned or rented during the taxable year and used by the claimant to
2 produce, grow, or extract qualified production property.

3 2. “Claimant” means a person who files a claim under this subsection.

4 3. “Direct costs” includes all of the claimant’s ordinary and necessary expenses
5 paid or incurred during the taxable year in carrying on the trade or business that are
6 deductible under section 162 of the Internal Revenue Code and identified as direct
7 costs in the claimant’s managerial or cost accounting records.

8 4. “Indirect costs” includes all of the claimant’s ordinary and necessary
9 expenses paid or incurred during the taxable year in carrying on the trade or
10 business that are deductible under section 162 of the Internal Revenue Code, other
11 than cost of goods sold and direct costs, and identified as indirect costs in the
12 claimant’s managerial or cost accounting records.

13 5. a. “Manufacturing property factor” means a fraction, the numerator of which
14 is the average value of the claimant’s real and personal property assessed under s.
15 70.995, owned or rented and used in this state by the claimant during the taxable
16 year to manufacture qualified production property, and the denominator of which is
17 the average value of all the claimant’s real and personal property owned or rented
18 during the taxable year and used by the claimant to manufacture qualified
19 production property.

20 b. For purposes of subd. 5. a., property owned by the claimant is valued at its
21 original cost and property rented by the claimant is valued at an amount equal to the
22 annual rental paid by the claimant, less any annual rental received by the claimant
23 from sub-rentals, multiplied by 8.

24 c. For purposes of subd. 5. a., the average value of property is determined by
25 averaging the values at the beginning and ending of the taxable year, except that the

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1 secretary of revenue may require the averaging of monthly values during the taxable
2 year, if such averaging is reasonably required to properly reflect the average value
3 of the claimant's property.

4 6. "Production gross receipts" means gross receipts from the lease, rental,
5 license, sale, exchange, or other disposition of qualified production property.

6 7. "Production gross receipts factor" means a fraction, the numerator of which
7 is production gross receipts and the denominator of which is all gross income from
8 whatever source, except for those items specifically excluded under the Internal
9 Revenue Code as adopted by this state and otherwise excluded under Wisconsin law.
10 For purposes of the denominator, income includes gross sales, gross dividends, gross
11 interest income, gross rents, gross royalties, the gross sales price from the disposition
12 of capital assets and business assets, gross income from pass-through entities, and
13 all other gross receipts that are included in income, before apportionment for
14 Wisconsin tax purposes under s. 71.04 (4).

15 8. "Qualified production activities income" means the amount of the claimant's
16 production gross receipts for the taxable year that exceeds the sum of the cost of goods
17 sold that are allocable to such receipts, the direct costs that are allocable to such
18 receipts, and the indirect costs multiplied by the production gross receipts factor.

19 "Qualified production activities income" does not include any of the following:

20 a. Income from film production.

21 b. Income from producing, transmitting, or distributing electricity, natural gas,
22 or potable water.

23 c. Income from constructing real property.

24 d. Income from engineering or architectural services performed with respect
25 to constructing real property.

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1 e. Income from the sale of food and beverages prepared by the claimant at a
2 retail establishment.

3 f. Income from the lease, rental, license, sale, exchange, or other disposition of
4 land.

5 9. “Qualified production property” means either of the following:

6 a. Tangible personal property manufactured in whole or in part by the claimant
7 on property that is assessed as manufacturing property under s. 70.995.

8 b. Tangible personal property produced, grown, or extracted in whole or in part
9 by the claimant on or from property assessed as agricultural property under s. 70.32
10 (2) (a) 4.

11 **SECTION 5.** 71.07 (5n) (d) of the statutes, as created by 2011 Wisconsin Act 32,
12 is renumbered 71.07 (5n) (d) 1.

13 **SECTION 6.** 71.07 (5n) (d) 2. of the statutes is created to read:

14 71.07 **(5n)** (d) 2. For purposes of determining a claimant’s eligible qualified
15 production activities income under this subsection, the claimant shall multiply the
16 claimant’s qualified production activities income from property manufactured by the
17 claimant by the manufacturing property factor and qualified production activities
18 income from property produced, grown, or extracted by the claimant by the
19 agriculture property factor.

20 **SECTION 7.** 71.10 (4) (cr) of the statutes, as created by 2011 Wisconsin Act 32,
21 is amended to read:

22 71.10 **(4)** (cr) ~~Qualified production activities~~ Manufacturing and agriculture
23 credit under s. 71.07 (5n).

24 **SECTION 8.** 71.21 (4) of the statutes, as affected by 2011 Wisconsin Act 32, is
25 renumbered 71.21 (4) (a) and amended to read:

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1 71.21 (4) (a) ~~Credits~~ The amount of the credits computed by a partnership
2 under s. 71.07 (2dd), (2de), (2di), (2dj), (2dL), (2dm), (2ds), (2dx), (2dy), (3g), (3h), (3n),
3 (3p), (3q), (3r), (3rm), (3rn), (3s), (3t), (3w), (5e), (5f), (5g), (5h), (5i), (5j), (5k), ~~(5n)~~, (5r),
4 (5rm), and (8r) and passed through to partners shall be added to the partnership's
5 income.

6 **SECTION 9.** 71.21 (4) (b) of the statutes is created to read:

7 71.21 (4) (b) Amounts computed by a partnership under s. 71.07 (5n) in the
8 previous taxable year and not included in federal ordinary business income shall be
9 added to the partnership's income.

10 **SECTION 10.** 71.26 (2) (a) 4. of the statutes, as affected by 2011 Wisconsin Act
11 32, is amended to read:

12 71.26 (2) (a) 4. Plus the amount of the credit computed under s. 71.28 (1dd),
13 (1de), (1di), (1dj), (1dL), (1dm), (1ds), (1dx), (1dy), (3g), (3h), (3n), (3p), (3q), (3r),
14 (3rm), (3rn), (3t), (3w), (5e), (5f), (5g), (5h), (5i), (5j), (5k), ~~(5n)~~, (5r), (5rm), (8r), and
15 (9s) and not passed through by a partnership, limited liability company, or
16 tax-option corporation that has added that amount to the partnership's, limited
17 liability company's, or tax-option corporation's income under s. 71.21 (4) or 71.34 (1k)
18 (g).

19 **SECTION 11.** 71.26 (2) (a) 11. of the statutes is created to read:

20 71.26 (2) (a) 11. Plus the amount computed under s. 71.28 (5n) in the previous
21 taxable year that is not included in federal taxable income.

22 **SECTION 12.** 71.28 (5n) (title) of the statutes, as created by 2011 Wisconsin Act
23 32, is amended to read:

24 71.28 (5n) (title) ~~QUALIFIED PRODUCTION ACTIVITIES~~ MANUFACTURING AND
25 AGRICULTURE CREDIT.

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1 **SECTION 13.** 71.28 (5n) (a) of the statutes, as created by 2011 Wisconsin Act 32,
2 is repealed and recreated to read:

3 **71.28 (5n) (a) Definitions.** In this subsection:

4 1. “Agriculture property factor” means a fraction, the numerator of which is the
5 average value of the claimant’s real property and improvements assessed under s.
6 70.32 (2) (a) 4., owned or rented and used in this state by the claimant during the
7 taxable year to produce, grow, or extract qualified production property, and the
8 denominator of which is the average value of all of the claimant’s real property and
9 improvements owned or rented during the taxable year and used by the claimant to
10 produce, grow, or extract qualified production property.

11 2. “Claimant” means a person who files a claim under this subsection.

12 3. “Direct costs” includes all of the claimant’s ordinary and necessary expenses
13 paid or incurred during the taxable year in carrying on the trade or business that are
14 deductible under section 162 of the Internal Revenue Code and identified as direct
15 costs in the claimant’s managerial or cost accounting records.

16 4. “Indirect costs” includes all of the claimant’s ordinary and necessary
17 expenses paid or incurred during the taxable year in carrying on the trade or
18 business that are deductible under section 162 of the Internal Revenue Code, other
19 than cost of goods sold and direct costs, and identified as indirect costs in the
20 claimant’s managerial or cost accounting records.

21 5. a. “Manufacturing property factor” means a fraction, the numerator of which
22 is the average value of the claimant’s real and personal property assessed under s.
23 70.995, owned or rented and used in this state by the claimant during the taxable
24 year to manufacture qualified production property, and the denominator of which is
25 the average value of all the claimant’s real and personal property owned or rented

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1 during the taxable year and used by the claimant to manufacture qualified
2 production property.

3 b. For purposes of subd. 6. a., property owned by the claimant is valued at its
4 original cost and property rented by the claimant is valued at an amount equal to the
5 annual rental paid by the claimant, less any annual rental received by the claimant
6 from sub-rentals, multiplied by 8.

7 c. For purposes of subd. 6. a., the average value of property is determined by
8 averaging the values at the beginning and ending of the taxable year, except that the
9 secretary of revenue may require the averaging of monthly values during the taxable
10 year, if such averaging is reasonably required to properly reflect the average value
11 of the claimant's property.

12 6. "Production gross receipts" means gross receipts from the lease, rental,
13 license, sale, exchange, or other disposition of qualified production property.

14 7. "Production gross receipts factor" means a fraction, the numerator of which
15 is production gross receipts and the denominator of which is all gross income from
16 whatever source, except for those items specifically excluded under the Internal
17 Revenue Code as adopted by this state and otherwise excluded under Wisconsin law.
18 For purposes of the denominator, income includes gross sales, gross dividends, gross
19 interest income, gross rents, gross royalties, the gross sales price from the disposition
20 of capital assets and business assets, gross income from pass-through entities, and
21 all other gross receipts that are included in income, before apportionment for
22 Wisconsin tax purposes under s. 71.25 (6).

23 8. "Qualified production activities income" means the amount of the claimant's
24 production gross receipts for the taxable year that exceeds the sum of the cost of goods
25 sold that are allocable to such receipts, the direct costs that are allocable to such

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1 receipts, and the indirect costs multiplied by the production gross receipts factor.

2 “Qualified production activities income” does not include any of the following:

3 a. Income from film production.

4 b. Income from producing, transmitting, or distributing electricity, natural gas,
5 or potable water.

6 c. Income from constructing real property.

7 d. Income from engineering or architectural services performed with respect
8 to constructing real property.

9 e. Income from the sale of food and beverages prepared by the claimant at a
10 retail establishment.

11 f. Income from the lease, rental, license, sale, exchange, or other disposition of
12 land.

13 9. “Qualified production property” means either of the following:

14 a. Tangible personal property manufactured in whole or in part by the claimant
15 on property that is assessed as manufacturing property under s. 70.995.

16 b. Tangible personal property produced, grown, or extracted in whole or in part
17 by the claimant on or from property assessed as agricultural property under s. 70.32
18 (2) (a) 4.

19 **SECTION 14.** 71.28 (5n) (d) of the statutes, as created by 2011 Wisconsin Act 32,
20 is renumbered 71.28 (5n) (d) 1.

21 **SECTION 15.** 71.28 (5n) (d) 2. of the statutes is created to read:

22 71.28 (5n) (d) 2. Except as provided in subd. 3., for purposes of determining a
23 claimant’s eligible qualified production activities income under this subsection, the
24 claimant shall multiply the claimant’s qualified production activities income from
25 property manufactured by the claimant by the manufacturing property factor and

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1 qualified production activities income from property produced, grown, or extracted
2 by the claimant by the agriculture property factor.

3 **SECTION 16.** 71.28 (5n) (d) 3. of the statutes is created to read:

4 71.28 **(5n)** (d) 3. The amount of the eligible qualified production activities
5 income that a claimant may claim in computing the credit under par. (b) is the lesser
6 of the following:

7 a. The eligible qualified production activities income determined under subd.
8 2.

9 b. Income apportioned to this state under s. 71.25 (5), (6), and (6m).

10 c. Income determined to be taxable under s. 71.255 (2).

11 **SECTION 17.** 71.30 (3) (dn) of the statutes, as created by 2011 Wisconsin Act 32,
12 is amended to read:

13 71.30 **(3)** (dn) ~~Qualified production activities~~ Manufacturing and agriculture
14 credit under s. 71.28 (5n).

15 **SECTION 18.** 71.34 (1k) (g) of the statutes, as affected by 2011 Wisconsin Act 32,
16 is amended to read:

17 71.34 **(1k)** (g) An addition shall be made for credits computed by a tax-option
18 corporation under s. 71.28 (1dd), (1de), (1di), (1dj), (1dL), (1dm), (1ds), (1dx), (1dy),
19 (3), (3g), (3h), (3n), (3p), (3q), (3r), (3rm), (3rn), (3t), (3w), (5e), (5f), (5g), (5h), (5i), (5j),
20 (5k), ~~(5n)~~, (5r), (5rm), and (8r) and passed through to shareholders.

21 **SECTION 19.** 71.34 (1k) (m) of the statutes is created to read:

22 71.34 **(1k)** (m) An addition shall be made for the amount computed under s.
23 71.28 (5n) in the previous taxable year that is not included in federal ordinary
24 business income.

