

Chapter Tax 2

INCOME TAXATION, RETURNS, RECORDS AND GROSS INCOME

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Tax 2.01 Residence. (Section 71.01, Wis. Stats.) (1) Income of teachers, traveling salesmen, federal employes or officials, and others whose profession or occupation necessitates temporary absence from their residence for five months or more of the income year is taxable in Wisconsin if residence is maintained in this state, regardless of their place of employment.

(2) The residence of a wife is that of her husband unless there is affirmative evidence to the contrary or unless the husband and wife are permanently separated. The residence of a minor child, unless emancipated, is that of its father, or of the mother, if the father is deceased.

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(3) Individuals claiming a change of residence from Wisconsin to another state shall file a "declaration of residence" with the assessor of incomes for the district in which the return for the preceding income year was filed and furnish such other information as the assessor may require.

Tax 2.02 Income year. (Section 71.01, Wis. Stats.) The term "income year" shall mean the calendar year or the corresponding fiscal year upon which basis the net income is computed. In cases where a fractional part of a year is made the basis for computing net income, such period is considered the "income year."

Tax 2.03 Corporation returns. For the purpose of filing income tax returns, the tax commissioner has designated the following forms for the use of corporations:

- Form 4 Return of income for the calendar or fiscal year.
- Form 4A Balance sheets as of beginning and end of taxable year; analysis of surplus account; reconciliation of book income with net income reported.
- Form 4B Apportionment data (when applicable to the corporation).
- Form 4C Separate accounting data (when applicable to the corporation).

All returns, statements, schedules and information required to be filed or furnished by corporations shall be filed with the department of taxation at its offices in the State Office Building at Madison.

Note: Blank forms may be obtained from the department at the State Office Building address.

Tax 2.04 Information returns; forms 9 and 9x for corporations. (Sections 71.04 (1) and (2) and 71.10 (1), Wis. Stats.) All corporations doing business within this state, whether subject to the income tax or not, shall file with the department of taxation at its office in the State Office Building at Madison on or before March 15 of each year on Forms 9 as prescribed by the tax commissioner, statements of payments made within the preceding calendar year to residents of Wisconsin of salaries, wages, bonuses, retirement pay, fees, rents, royalties, interest, dividends and liquidating distributions. These forms must be filed by March 15 of each year regardless of the fact that the corporation keeps its records on a fiscal year basis. Salaries, wages, bonuses, retirement pay, fees and other compensation paid to an employe or officer (active or retired) need not be reported on Forms 9 if they aggregate less than \$600; and no one of interest, dividends, rents or royalties need be reported if it is less than \$100. Each corporation must file with forms 8 or 9, form 9x showing the number of reports made on forms 8 and 9. (See also Tax 2.05) Items of expense required to be reported on Forms 9 may be disallowed as deductions from the corporation's gross income upon failure to make proper report thereof.

Note: Blank forms may be obtained from the department at the State Office Building address.

(Corporations failing to file Forms 9 as prescribed by law shall be subject to a fine of not less than \$50 nor more than \$500. (See section 71.11 (45), Wis. Stats.)

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Tax 2.05 Information returns, forms 8 for corporations. (Section 71.10 (1), Wis. Stats.) All corporations doing business within this state, whether subject to the income tax or not, are required to file with the department of taxation at its offices in the State Office Building at Madison on or before March 15 of each year on forms 8 as prescribed by the tax commissioner, statements of such transfers of capital stock as have been made by residents of Wisconsin during the preceding calendar year.

Note: Blank forms may be obtained from the department at the State Office Building address.

(Corporations failing to file such statements shall be subject to a fine of not less than \$50 nor more than \$500. (See section 71.11 (45), Wis. Stats.)

Tax 2.06 Information returns for individuals. (Section 71.05 and 71.05 (3), Wis. Stats.) Reports of payments made by individuals may be made a part of the income tax return or may be reported on forms 9. The items of expense referred to in the statutes will be disallowed as deductions from gross income if not properly reported.

Note: Blank forms may be obtained from the office of the assessor of incomes in which the reports are required to be filed.

Tax 2.07 Income tax returns of dissolved corporations. (Section 71.10 (1), Wis. Stats.) The officers of a corporation which has been dissolved during the income year must file a corporate income tax return for such year and for any year thereafter in which there is corporate income. The final return must indicate the disposition of all corporate assets.

Tax 2.08 Returns of persons other than corporations. (1) For the purpose of filing income tax returns, the commissioner of taxation has designated the following forms for the use of persons other than corporations:

Form 1	For all individuals except married women.
Form 1B	For persons having a business or profession.
Form 1-Fc	For farmers on the cash basis.
Form 1-Fi	For farmers on the accrual basis. (Form 1B, 1-Fc or 1-Fi is filed with Form 1.)
Form 1W	For wives having separate incomes.
Form 2	For trustees, executors, administrators and others acting in a fiduciary capacity, but excluding guardians. (Guardians should report on Form 1.)
Form 3	For copartnerships and joint venturers.

(2) Information returns required of persons other than corporations are specified in Tax 2.06 and Tax 3.63. See also Tax 3.07.

(3) All returns, reports, statements and information required to be filed, furnished or reported by natural persons or partnerships, shall be filed in the offices of the assessor of incomes for the district in which the natural person resides, or in which the partnership has its principal business office. Natural persons who are not residents of this state shall file with the assessor of incomes from whose district they derive income from business therein transacted or prop-

erty therein located, and when they derive such income from more than one district, they shall consistently file in the office of the assessor of incomes for one of such districts unless notified by the department to file with the assessor of another district.

Note: Blank forms may be obtained from the office of the assessor of incomes in which the returns are required to be filed.

Tax 2.09 Reproduction of forms. Subject to the conditions set forth under this rule, the official Wisconsin income tax return forms may be reproduced and the reproductions filed with the department in lieu of the corresponding official forms:

(1) The reproductions must be made by photo-offset, photo-engraving or by some similar photographic process. They may be reproduced on one side or both sides of the paper.

(2) The reproductions must be on paper of substantially the same color, weight and texture, and of quality at least as good as that used in the official forms. Forms 1-Fc, 1-Fi, 1-W, 2 and 3 may not, therefore, be reproduced and filed on white paper.

(3) Since all of the official forms are printed in black ink, such printing must be reproduced in the same color.

(4) The size of the reproductions, both as to the dimensions of the paper and image reproduced thereon, must be the same as that of the official form.

(5) All signatures required on returns which are filed with the department must be original, affixed subsequent to the reproduction process.

Tax 2.10 Optional tax table (see page 9).

Tax 2.14 Separate income tax returns for husband and wife. If husband and wife each has a gross income of \$600 or more or if either has any net income when their combined net income is \$1,400 or more, each must file a separate return. (See *Amerpohl v. Tax Commission*, 225 Wis. 62.) The aggregate personal exemption of \$14.00 allowable when Forms 1 and 1-W are filed may be divided between the two according to their choice.

Tax 2.15 Methods of accounting. (Section 71.11 (8), Wis. Stats.) No uniform method of accounting can be prescribed for all taxpayers, and the law contemplates that each taxpayer may return his income in accordance with the method of accounting regularly employed in keeping his books. If no method of accounting is regularly employed or if the method employed does not clearly reflect the income, the department of taxation may prescribe the method to be used. A method of accounting will not be regarded as clearly reflecting the income unless all items of gross income and all deductions are treated with reasonable consistency.

Tax 2.16 Changes in method of accounting. (Section 71.11 (8), Wis. Stats.) No change in the method of accounting used in reporting income may be made without first obtaining the written permission of the tax commissioner or the assessor of incomes, as the case may be. Applications for such change must set forth clearly the nature of the business, the method of accounting used in keeping the books, and the reasons for changing the method of reporting. In changing from a cash basis of accounting to an accrual basis of accounting, income accrued but not yet collected as of the close of the year of change shall be added to income actually received in cash during the year,

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TAX 2.10 OPTIONAL TAX TABLE (SECTION 71.09 (2M) (d) APPLICABLE TO CALENDAR YEAR 1955, OR
CORRESPONDING FISCAL YEAR, AND SUBSEQUENT YEARS)

If your Adjusted Gross Income is		Your* Gross Tax is	If your Adjusted Gross Income is		Your Gross Tax is	If your Adjusted Gross Income is		Your Gross Tax is	If your Adjusted Gross Income is		Your Gross Tax is
At Least	But Less Than		At Least	But Less Than		At Least	But Less Than		At Least	But Less Than	
0	50.	.20	1,250.	1,300.	12.00	2,500.	2,550.	27.00	3,750.	3,800.	48.40
50.	100.	.70	1,300.	1,350.	12.60	2,550.	2,600.	27.60	3,800.	3,850.	49.50
100.	150.	1.10	1,350.	1,400.	13.10	2,600.	2,650.	28.30	3,850.	3,900.	50.70
150.	200.	1.60	1,400.	1,450.	13.70	2,650.	2,700.	29.00	3,900.	3,950.	51.80
200.	250.	2.00	1,450.	1,500.	14.30	2,700.	2,750.	29.70	3,950.	4,000.	52.90
250.	300.	2.50	1,500.	1,550.	14.80	2,750.	2,800.	30.40	4,000.	4,050.	54.10
300.	350.	3.00	1,550.	1,600.	15.40	2,800.	2,850.	31.10	4,050.	4,100.	55.20
350.	400.	3.40	1,600.	1,650.	16.00	2,850.	2,900.	31.70	4,100.	4,150.	56.30
400.	450.	3.90	1,650.	1,700.	16.60	2,900.	2,950.	32.40	4,150.	4,200.	57.50
450.	500.	4.30	1,700.	1,750.	17.10	2,950.	3,000.	33.10	4,200.	4,250.	58.60
500.	550.	4.80	1,750.	1,800.	17.70	3,000.	3,050.	33.80	4,250.	4,300.	59.80
550.	600.	5.20	1,800.	1,850.	18.30	3,050.	3,100.	34.50	4,300.	4,350.	60.90
600.	650.	5.70	1,850.	1,900.	18.80	3,100.	3,150.	35.20	4,350.	4,400.	62.00
650.	700.	6.10	1,900.	1,950.	19.40	3,150.	3,200.	35.80	4,400.	4,450.	63.30
700.	750.	6.60	1,950.	2,000.	20.00	3,200.	3,250.	36.50	4,450.	4,500.	64.70
750.	800.	7.10	2,000.	2,050.	20.50	3,250.	3,300.	37.20	4,500.	4,550.	66.00
800.	850.	7.50	2,050.	2,100.	21.10	3,300.	3,350.	38.10	4,550.	4,600.	67.40
850.	900.	8.00	2,100.	2,150.	21.70	3,350.	3,400.	39.30	4,600.	4,650.	68.80
900.	950.	8.40	2,150.	2,200.	22.20	3,400.	3,450.	40.40	4,650.	4,700.	70.10
950.	1,000.	8.90	2,200.	2,250.	22.90	3,450.	3,500.	41.60	4,700.	4,750.	71.50
1,000.	1,050.	9.30	2,250.	2,300.	23.60	3,500.	3,550.	42.70	4,750.	4,800.	72.90
1,050.	1,100.	9.80	2,300.	2,350.	24.20	3,550.	3,600.	43.80	4,800.	4,850.	74.20
1,100.	1,150.	10.30	2,350.	2,400.	24.90	3,600.	3,650.	45.00	4,850.	4,900.	75.60
1,150.	1,200.	10.90	2,400.	2,450.	25.60	3,650.	3,700.	46.10	4,900.	4,950.	77.00
1,200.	1,250.	11.40	2,450.	2,500.	26.30	3,700.	3,750.	47.20	4,950.	5,000.	78.30

*From the gross tax determined by this table the taxpayer should deduct his personal exemptions, if any, to arrive at his net normal income tax. To such tax must be added any surtax on the net normal income tax as is provided by law.

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and expenses accrued but not yet paid as of the close of the year shall be added to expenses actually paid during the year.

Tax 2.17 Cash method of accounting. (Section 71.11 (8), Wis. Stats.) The use of the cash method of accounting and reporting does not properly reflect taxable income in cases where, at the end of the taxable year, the records reflect accounts receivable, accounts payable, or inventories.

Tax 2.18 Accrual method of accounting. (Section 71.11 (8), Wis. Stats.) In all cases in which the production, purchase or sale of merchandise of any kind is an income producing factor, inventories are necessary, and no accounting method in regard to purchases and sales will correctly reflect the income except the accrual method. Approved standard methods of accounting will ordinarily clearly reflect the income. Special methods of accounting employed in special trades or businesses may, with the written approval of the tax commissioner or assessor of incomes, be used in reporting income.

Tax 2.19 Instalment method of accounting. (Section 71.11 (8), Wis. Stats.) (1) The instalment method of reporting income may be used only in the case of sales of real estate and infrequent, isolated sales of personal property, and then only subject to the provisions of section 71.03 (1) (g), Wis. Stats. (See also Tax 2.71).

(2) Persons regularly engaged in the business of selling personal property and keeping records on the instalment basis will be required to report for income tax purposes on the accrual basis.

Tax 2.20 Accounting for acceptance corporations, dealers in commercial paper, mortgage discount companies and small loan companies. (Section 71.11 (8), Wis. Stats.) (1) Except as otherwise provided in subsection (3) hereof, acceptance corporations and dealers in commercial paper must report the discount on the purchase of paper as income in the year of such purchase.

(2) Where the records of such acceptance corporations and dealers in commercial paper are kept upon the deferred profit basis, schedules should be attached to the tax returns clearly setting forth the unrealized profit accounts and reconciling the income and surplus per books with the taxable net income.

(3) Acceptance corporations and dealers in commercial paper may elect to report their taxable income on the deferred profit basis, provided that their books and records are kept on that basis and provided further that both the deferral of income and the expenses incurred in producing said income is made in accordance with accepted accounting principles and practice. The election to so report must be made before the close of the year for which the return is made, and after having made such election the deferred profit basis of reporting must be adhered to in all subsequent periods.

Tax 2.21 Accounting for contractors. (Section 71.11 (8), Wis. Stats.) (1) The general rules for reporting income on the accrual basis apply to contractors except that, in the case of contracts upon which work is performed in 2 or more consecutive income years, the percentage of completion basis may be used provided such basis clearly reflects the income taxable under chapter 71, Wis. Stats.

(a) Under this method of accounting at the close of the taxable year, a portion of the total contract price is treated as sales for the

current period, such portion being based upon the percentage of completion, as determined by an engineer's or an architect's estimate or such other records as will most clearly reflect the income realized to date. By this method the difference between the sales thus determined and the total cost applicable to the sales is treated as taxable income.

(2) The profit on jobs taken on a cost plus basis and uncompleted at the close of a taxable year should be computed in accordance with the terms of the contract and reported at that time, and cannot be deferred until the year in which the contract is completed.

(3) The income derived from construction contracts performed in Wisconsin is taxable. Records must be kept which will permit of a proper distribution of the tax paid on such income between taxation districts. Data must be submitted with the tax return indicating the basis for the distribution of the tax between taxation districts.

Tax 2.22 Accounting for dealers in securities. (Section 71.11 (8), Wis. Stats.) The income of dealers in securities can be properly reflected for income tax purposes only by use of the accrual method of accounting. As securities constitute the stock in trade, the inventories thereof must be taken consistently on a uniform basis conforming to that used in the trade or business.

Tax 2.23 Accounting for farmers and dairymen. (Section 71.11 (8), Wis. Stats.) Any method of accounting that properly reflects the taxable income may be used by farmers and dairymen, but the method selected must be consistently followed.

Commonly, one of two methods of determining net income is used:

1. Cash receipts in excess of deductible cash disbursements for the year.

2. Increase in year-end inventory of stock and produce added to net revenues for the year.

Tax 2.24 Accounting for retail merchants. (Section 71.11 (8), Wis. Stats.) The "retail method" of treating inventories properly reflects the taxable income and will be acceptable when it is consistently followed and adequate records are kept. The difference between the inventory taken on the old basis and the inventory taken on the basis of the "retail method" will constitute taxable income or deductible expense for the year in which the change is made. Retail merchants should report all other items of income and expense upon the ordinary accrual method.

Tax 2.25 Accounting generally. (Sections 71.11 (8) and 71.11 (9), Wis. Stats.) (1) In a business requiring the use of inventories, the income therefrom generally can be properly reflected by use of the accrual method of accounting, and inventories taken in accordance with the best accounting practice in the trade or business and used by the taxpayer to show his financial position can be accepted.

(a) Except as other methods of inventorying are recognized in these rules, the two most commonly used bases in valuing inventories are (1) cost and (2) cost or market, whichever is lower.

(b) Whether the cost or the lower of cost or market basis of valuing inventories is used, the basis adopted must be applied with reasonable consistency to the entire inventory, and no change from one basis to the other will be permitted without written permission from the tax commissioner or assessor of incomes.

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(2) Inventories and inventory records must be preserved as a part of the accounting records of the taxpayer and available for examination and verification.

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Tax 2.26 "Last in, first out" method of inventorying. (Section 71.11 (9), Wis. Stats.) Any person permitted or required to take inventories pursuant to the provisions of section 71.11 (9), Wis. Stats., may elect with respect to those goods specified in his application and properly subject to inventory to compute his inventory in accordance with the method provided by section 472 of the United States internal revenue code, provided that:

(1) The first inventory which may be computed on said basis is the closing inventory for the taxable year 1940.

(2) The same basis of inventorying is used in reporting income for taxation to the United States bureau of internal revenue, and that the inventories used in reporting income to the United States bureau of internal revenue and to the Wisconsin department of taxation agree both as to computation and amounts,

(3) Except as herein otherwise provided, the change to and the use of such method of inventorying shall be subject to and conditioned upon all of the regulations promulgated with respect thereto by the United States bureau of internal revenue.

(4) An application to use such method must be filed with the Wisconsin department of taxation in substantially the same form as required by the bureau of internal revenue, and the same shall be filed with the return for the taxable year in which the change is to be made effective. The opening inventory for the period in which the election to change is exercised shall be taken on the basis previously accepted and approved.

(5) There shall be applicable for Wisconsin income tax purposes, in addition to those regulations of the United States bureau of internal revenue made generally applicable by section (3) hereof, that regulation, authorized by section 1321 of the internal revenue code, concerning involuntary liquidation and replacement of inventories, except, however, that income adjustments for the difference between the replacement cost and the original inventory cost of the base stock inventory liquidated shall be made to the net income of the year in which the replacement is made instead of to the net income for the year of liquidation. ((5) effective June 5, 1946).

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(6) Any person who has been computing his inventory for Wisconsin income tax purposes in accordance with Section 472 of the United States internal revenue code and who has been authorized or directed by the United States commissioner of internal revenue to change his method of inventory valuation for federal income tax purposes shall also change his method of inventory valuation for Wisconsin income tax purposes. To correlate his Wisconsin basis with the federal basis, the opening inventory for the income year in which the change is made shall be reported on the basis previously accepted and approved whereas the closing inventory shall be on the new method of valuation. No adjustment is to be made to the closing inventory of the preceding taxable year. Notice of the change in method shall be filed with the return on which it is effective and shall be supported by a copy of the authorization or order to change inventory method for federal income tax purposes.

DETERMINATION OF INCOME FROM MULTISTATE OPERATIONS

Tax 2.41 Separate accounting method. (Section 71.07 (2), Wis. Stats.) (1) When the separate accounting method is used, separate records must be kept of sales, cost of sales and expenses for the Wisconsin business as distinct from the remainder of the business. Overhead items of income and expense must then be allocated to the business within and without Wisconsin upon a basis or combination of bases justified by the facts and conditions. For example: The ratio of Wisconsin sales to total sales usually represents a satisfactory basis for a merchandising business, while the ratio of direct cost of material and labor in Wisconsin to the total gives a more accurate result for a construction business. Federal income taxes are based upon income and should, therefore, be allocated to Wisconsin business on the basis of income. Federal income taxes are deductible only on the cash basis, and the allocation to Wisconsin business for any year, therefore, must be based upon the ratio of income within Wisconsin to the total income of the year on which the federal income taxes are assessed, even though that ratio differs from the ratio of the year in which the taxes are actually paid.

(a) The relationship of the general overhead items to Wisconsin operations will determine whether the home office income and expense should be allocated to the Wisconsin business. Such overhead items as officers' salaries, office salaries, office rent and sundry office expenses should ordinarily be included in the allocation.

(2) Interest received on bonds and dividends received on stocks held for investment are not subject to allocation except as they may be used to reduce apportionable interest paid. Rentals received from real estate held purely for investment purposes and not used in the operation of the business are not subject to allocation. All expenses connected with the interest, dividends and rentals realized from investments such as the above are not subject to allocation but must be applied against the investment income. The taxability of the net investment income depends upon the situs of the investment property or the residence of the recipient.

Tax 2.42 Apportionment method. (Section 71.07 (2), Wis. Stats.) Any person engaged in business within and without the state must report by the statutory apportionment method when the business of such person within the state is an integral part of a unitary business, unless the department of taxation expressly permits reporting on a different basis. The factors used in the apportionment method are as follows:

(1) Tangible property includes land, buildings, machinery and equipment, inventories and other tangible personal property actually owned and used in producing apportionable income. Tangible property which is used in producing nonapportionable or nontaxable income cannot be included in the property factor. The value at which tangible property should be included in the apportionment factor is the average of the beginning and close of year values on a comparable basis within and without the state. If the average at the beginning and end of the year does not fairly represent the average of the property owned during the year, the average may be obtained by dividing the sum of the monthly balances by 12.

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(2) The cost of manufacturing, collecting, assembling or processing within Wisconsin must be determined in all cases in the same manner and under the same rules as the cost for the entire business within and without Wisconsin is determined. When a product is partially completed outside of the state and then shipped into the state for further processing or completion, only the labor and manufacturing expense incurred from the time that the product is brought into the state becomes a part of the cost within Wisconsin, and the total material used in manufacturing both within and without the state shall be allocated on some equitable basis such as the ratio of direct labor and manufacturing expense within Wisconsin to the total thereof.

(3) Sales are made in Wisconsin if made through or by offices, agencies or branches located within the state, regardless of the location of the purchaser. Sales made by a foreign corporation to customers in Wisconsin through the medium of solicitors or traveling salesmen are not Wisconsin sales unless such salesmen are identified with offices, agencies or branches located within Wisconsin. Sales made by a sales office in Wisconsin to customers located outside of Wisconsin are Wisconsin sales for purposes of apportionment. Goods sold through a sales office in Wisconsin may be shipped direct from a factory located outside the state to a customer located outside the state and still be Wisconsin sales. Goods sold through a sales office located outside of the state without the intervention of any Wisconsin office, branch or agency but shipped from a factory located in Wisconsin to a Wisconsin customer are not Wisconsin sales.

Tax 2.43 Nonapportionable income. (Section 71.07 (2), Wis. Stats.)

(1) The expenses related to nonapportionable income must be deducted therefrom to determine the net nonapportionable income. In the case of dividends and interest received which follows the residence of the recipient, only the excess of the amounts received over the sum of interest paid and dividends deducted plus other related expenses can be considered as nonapportionable income. If the interest paid, deductible dividends received and related expenses exceed the total interest and dividends received, no deduction from total net income can be made for nonapportionable interest and dividends. All of the nonapportionable income must be deducted from the total net income of the business to determine the apportionable income to which the apportionment percentage is applied. Any nonapportionable income attributable to Wisconsin must be added to the apportionable income allocated to Wisconsin to determine the total Wisconsin net income.

(a) Gains and losses on sale or discard of working assets such as machinery and automobiles are ordinarily considered to be adjustments of depreciation and are treated as apportionable.

Tax 2.44 Permission to change basis of allocation of income. (Section 71.07 (2), Wis. Stats.) (1) Except when income must be reported on the apportionment basis, permission to make a change either from separate accounting to apportionment, or vice versa, must be obtained in writing from the tax commissioner or the assessor of incomes upon written application setting forth in detail the reasons why the desired change will more clearly reflect the taxpayer's Wisconsin income.

(a) Such application must be filed before the end of the income year for which the change is desired.

GROSS INCOME

Tax 2.51 Rent received from Wisconsin real estate. (Section 71.03 (1) (b), Wis. Stats.) Rentals must be included in the gross income when they accrue or are actually received by the taxpayer, depending upon the method of accounting used in reporting income. Rentals which have not actually been received in cash will be treated as received if available to or subject to the disposal of the landlord.

Tax 2.53 Stock dividends and stock rights. (1) If a shareholder receives stock or stock rights as a distribution on stock previously held and under section 71.305, Wis. Stats., such distribution is not includable in gross income then, except as provided in section 71.307 (2), Wis. Stats., the basis of the stock with respect to which the distribution was made shall be allocated between the old and new stocks or rights in proportion to the fair market values of each on the date of distribution. If a shareholder receives stock or stock rights as a distribution on stock previously held and under section 71.305 (1), Wis. Stats., a part of the distribution is not includable in gross income (except as provided in 71.307 (2), Wis. Stats.), the basis of the stock with respect to which the distribution is made shall be allocated between the old and new stocks or rights in proportion to the fair market values of each on the date of distribution without regard to the fair market value of any part of such distribution which is includable in gross income pursuant to section 71.305 (2), Wis. Stats. The date of distribution in each case shall be the date the stock or the rights are actually distributed to the stockholder and not the record date. The general rule will apply with respect to stock rights only if such rights are exercised or sold.

(a) **Exception.** The basis of rights to buy stock which are excluded from gross income under section 71.305 (1), Wis. Stats., shall be zero if the fair market value of such rights on the date of distribution is less than 15 per cent of the fair market value of the old stock on that date, unless the shareholder elects to allocate part of the basis of the old stock to the rights. The election shall be made by a shareholder with respect to all the rights received by him in a particular distribution in respect of all the stock of the same class owned by him in the issuing corporation at the time of such distribution. Such election to allocate basis to rights shall be in the form of a statement attached to the shareholder's return for the year in which the rights are received. Such statement shall disclose the number of shares of the old stock by the shareholder on the date of distribution, the basis of such shares, and the fair market value of the old shares and of the rights on the date of distribution. This election, once made, shall be irrevocable with respect to the rights for which the election was made. Any shareholder making such an election shall retain a copy of the election and of the tax return with which it was filed, in order to substantiate the use of an allocated basis upon a subsequent disposition of the stock acquired by exercise.

Tax 2.56 Insurance dividends and proceeds received. (Section 71.03 (1) (d), Wis. Stats.) (1) Dividends received by an individual upon life insurance policies are not taxable income either when used to reduce the amount of the premiums when applied on additional insurance or when received in cash.

(2) Generally, interest on insurance proceeds paid to policy owners or beneficiaries is taxable income.

(a) Under an interest option clause under which all the principal proceeds are retained and interest paid thereon periodically, the interest is taxable income.

(b) Under an income option under which the principal proceeds and interest thereon are paid in periodical instalments to the policy owner, the interest so paid is taxable income.

(c) When, under the same option, payments are made to the beneficiary (the option having been selected by the beneficiary), the interest so paid is taxable income.

(3) (a) When, under the same option, payments are made to the beneficiary (the option having been designated by the insured), the instalment payments are made under the insurance contract, and no part of the payment is taxable income.

(b) Under a life income option under which instalment payments, including interest, are paid to the policy owner for life (a minimum number of years certain), the interest so paid annually and any instalment payments of proceeds after the total premium cost has been returned is taxable income.

(c) When, under the same option, payments are made to the beneficiary (the option having been designated by the beneficiary), the interest so paid annually and any instalment payment of proceeds after the inheritance appraisal value has been returned is taxable income.

(d) When, under the same option, payments are made to the beneficiary (the option having been designated by the insured), no part of the payment is taxable income.

Tax 2.57 Annuity payments. Annuity payments under an endowment or annuity contract are income to the extent of any payment after the income tax cost (aggregate premiums or consideration) has been recovered. However, when the contract provides for the separation of the periodic payments into principal and interest, the interest so received is taxable when received.

Tax 2.60 Dividends on stock sold "short." (Section 71.03 (1) (d), Wis. Stats.) When stock is sold "short" for later delivery, the purchaser receives the dividend, since he is the owner of the borrowed stock, and the amount credited to the lender of the stock and charged to the "short" seller is income upon which the lender is subject to tax. The amount charged to the "short" seller becomes part of the cost of the stock sold.

Tax 2.61 Building and loan dividends on installment shares. (1) An amount (dividend) credited to shareholders of a building and loan association has a taxable status as income for the year of the credit to the extent of the amount available to the shareholder.

(2) An amount (dividend) received by such shareholder at maturity of his share in excess of the accumulated amounts so reported as income shall be treated as income in the year of such receipt.

Tax 2.63 Dividends accrued on stock. (Section 71.03 (1) (d), Wis. Stats.) In the case of stock sold between dividend dates, the entire amount of the dividend is income to the vendee and must be included

in his income when received. The amount advanced by the vendee to the vendor in contemplation of the next dividend payment is an investment of capital.

Tax 2.65 Interest received. (Section 71.03 (1) (c), Wis. Stats.) (1) In general, all interest is taxable except net interest received on monies invested in obligations of the United States government or its instrumentalities or agencies. Interest on postal savings and interest on federal tax refunds is taxable. Profit or loss on the sale or other disposition of tax exempt securities is a taxable gain or deductible loss, and such profit or loss must be distinguished from the tax-free interest which may be accrued and realized at the date of sale.

(2) Interest is deemed to be received when accrued or received in cash, depending upon the method of accounting used by the taxpayer. Interest becomes taxable to a taxpayer reporting on a cash basis when it is made available to him. Coupons on bonds which are due but have not been cashed are considered as received provided that the cash for payment of the coupons is available. Accrued interest paid on bonds purchased between interest payment dates shall be treated as a deduction from the interest thereon received.

Tax 2.67 Wages, salaries and other compensations received. (Section 71.03 (1) (a), Wis. Stats.) (1) Compensation may be paid in money or property, or both, and is to be reported in the year in which actually received or made available to or subject to the disposal of the recipient or his agent, without regard to when the services were rendered.

(a) Compensation which is received in property should be valued at the fair market value thereof existing at the date received.

(b) A person receiving as compensation a promissory note should treat as income in the year received the fair market value of the note. In the absence of credible evidence to the contrary, the face value of the note will be considered its fair market value. When the note matures and is paid, the difference between the amount originally reported as income and the amount realized on the note constitutes taxable gain or deductible loss.

(c) A person receiving subsistence in addition to salary or wages should report the fair market value thereof as compensation received.

(d) Bonuses and additional compensation received in accordance with profit-sharing agreements constitute taxable income and should be reported in the year received. If bonuses and additional compensation are available to the recipient but are left in the business indefinitely, they will be considered as constructively received in the year when made available. Retirement pay is taxable income unless specifically exempt by law. When payments have been made by the taxpayer into a retirement fund, no taxable income is realized until the aggregate of the payments received exceeds the amounts paid into such fund by the taxpayer.

(e) Salaries paid by a partnership to the members thereof are to be included with the distributive shares of the partnership income and taxed in the same manner.

Tax 2.69 Income from Wisconsin business. (Section 71.03 (1) (g), Wis. Stats.) All of the income realized from business carried on in Wisconsin is taxable. The fact that a person or corporation is

licensed to do business in Wisconsin is evidence that it is doing business in the state, within the meaning of this chapter. However, a person or corporation may be doing business in this state within the meaning of this chapter even though not licensed. In all cases of doubt, the complete facts should be reported to the tax commissioner or assessor of incomes for determination.

Tax 2.70 Gain or loss on capital assets; basis of determining. (Section 71.03 (1) (g), Wis. Stats.) (1) Profits or losses resulting from the sale or other disposition of capital assets are ordinarily taxable income or deductible losses for the year in which the sale or other disposition takes place. In certain cases of real estate sales involving deferred payments, the profit may be treated as not wholly realized in the year of sale and may be deferred in accordance with the terms of payment. (See Tax 2.71)

(a) The fair market value at January 1, 1911 must be determined in the light of the facts and circumstances known as of that date. In the absence of competent evidence to the contrary, cost less depreciation sustained to January 1, 1911 will be considered the fair market value as of that date. The method of arriving at the January 1, 1911 value must be clearly set forth in the income tax returns.

(b) Stocks, bonds and other securities are considered as capital assets when held by a person other than a dealer in securities. The profit or loss on sale or other disposition of securities is, therefore, determined in the same manner and on the same basis as that used for other capital assets.

(c) In determining the profit or loss on the sale of stock received as a stock dividend subsequent to January 1, 1926, the total income tax cost of the original shares on which the dividend was declared is allocated to the new and old shares with due regard to the fair market value of the new and old shares at the date of the dividend.

Tax 2.71 Sales of capital assets on deferred payments. (Section 71.03 (1) (g), Wis. Stats.) (1) Subject to the approval of the department of taxation, taxpayers may elect to defer profits on real estate sales and report them on the instalment basis. The election with respect to any sale will be approved by the department only if the amount received during the first contract year is not substantial (usually 30 per cent or less of the sale price, or, in the case of mortgages assumed by the purchaser, 30 per cent of the net equity) and provided the department is satisfied that the method of accounting will correctly reflect the income. The expenses incident to each sale must be deferred on the same basis that the profit arising from the sale is deferred.

(a) When the contract year does not correspond with the taxpayer's income year and the amount receivable during the first contract year is substantial, but a relatively small amount is received in the first income year, the sale may be reported for the first income year on the instalment basis. In such case, however, the total profit less the amount of the profit reported in the first income year must be reported as income in the second income year.

(2) Losses sustained on sales of real estate cannot, under any condition, be deferred beyond the income year of sale.

Tax 2.72 Exchanges of property not made pursuant to a plan of reorganization. (Section 71.03 (1) (g), Wis. Stats.) (1) When property is exchanged for other property which has a fair market value, a taxable gain or deductible loss may result, and such fair market value must be treated as the price realized for the property exchanged and the cost price of the property received, for purposes of future sale. When the property received in exchange has no determinable market value, the property received takes the place of the property exchanged, and no profit or loss is recognized. In the event of future sale, the income tax cost of the original property exchanged becomes the basis for computing the gain or loss on the property received in exchange.

(2) Where property of two different kinds is received in exchange for property, one kind having a determinable fair market value and the other no determinable fair market value, the gain is measured by the excess of the fair market value of the property received over the income tax cost of the property exchanged. The property received which has no determinable fair market value is considered as having no cost in case of future sale, the entire proceeds of such sale being taxable income. If the income tax cost of the property exchanged is in excess of the fair market value of the property received in exchange, such excess shall be taken as the income tax cost of the property received which has no determinable fair market value, no loss being recognized in such cases.

(3) Taxable gain or deductible loss must be computed when used working assets, such as automobiles and machinery, are traded in on the purchase price of new assets of a similar nature. The measure of gain or loss is the difference between the trade-in allowance and the net income tax cost of the old assets. The only exception to this rule occurs in the case of a taxpayer who has been permitted or required to use a composite rate of depreciation.

In general, there are only three types of exchanges upon which exemption from tax may be claimed:

- (1) Exchanges made pursuant to a plan of reorganization.
- (2) Exchanges in which the property received in trade has no determinable market value. In attempting to determine the market value of the property received in exchange, the same methods may be used as in determining 1911 value.
- (3) Exchanges of residences pursuant to section 71.03 (5) of the statutes.

Tax 2.73 Involuntary conversion. (Section 71.03 (1) (g), Wis. Stats.) (1) In all cases of gain on involuntary conversion where such gain is not recognized for income tax purposes, the property acquired in the replacement is deemed to take the place of the property destroyed for purposes of depreciation, depletion and profit or loss on subsequent sale or other disposition.

(2) In all cases of involuntary conversion which result in losses, such losses are allowable in the year in which the conversion takes place.

(3) This section does not apply when insurance money received on the conversion of Wisconsin assets is used in replacement outside of Wisconsin. In such case, the gain or loss must be reported in the year of conversion.

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Tax 2.75 Recoveries. (Section 71.03 (1) (1), Wis. Stats.) Recoveries of items previously charged off as loss or as expense (including recoveries through health and accident insurance or otherwise of payments deducted pursuant to section 71.05 (9), Wis. Stats.), are taxable income in the year of recovery.

Tax 2.76 Refunds of taxes. (Section 71.03 (1) (1), Wis. Stats.) Refunds of federal, state or local taxes together with interest thereon which were allowed as deductions from gross income in previous years are taxable income.

Tax 2.77 Strike benefits. (Section 71.03 (1) (1), Wis. Stats.) Members of a labor organization who receive benefits from a union while on strike realize taxable income in the amount of the benefits received. Dues and strike assessments paid to labor unions are deductible from income.

Tax 2.78 Merchandise taken from stock for personal use. (Section 71.03 (1) (1), Wis. Stats.) Merchants who consume a portion of their stock of goods held for sale must report as income the cost value of the merchandise consumed.

Tax 2.79 Prizes. (Section 71.03 (1) (1), Wis. Stats.) A prize won is taxable income when received. Any expenses incurred in connection with winning a prize are deductible from the amount received.

Tax 2.80 Improvements on leased real estate, income to lessor. (Section 71.03 (1) (1), Wis. Stats.) If improvements are made on leased property and the life of such improvements extends beyond the terms of the lease, the lessor derives taxable income at the expiration of the lease, the amount of which is represented by the fair market value of the improvements at the time.

Tax 2.81 Damages received. (Section 71.03 (1) (1), Wis. Stats.) Damages may result in taxable income when recovered on account of injury to property, interference with property rights or breach of contract, when the amounts received as damages are in excess of the income tax cost of the property destroyed. Damages recovered for libel of business reputation are taxable income. Damages received for personal injury, assault and battery, sickness, alienation of affections, breach of promise, surrender of custody of minor child and similar personal damages are not taxable income.

Tax 2.82 Mileage received. (Section 71.03 (1) (1), Wis. Stats.) The excess of mileage received over actual expenditures is taxable income.

Tax 2.83 Per diem allowances received. (Section 71.03 (1) (1), Wis. Stats.) The excess of per diem allowances received over actual expenditures is taxable income.

Tax 2.84 Life insurance premium paid for officers and employees. (Section 71.03 (1) (1), Wis. Stats.) Life insurance premiums paid for officers and employees where such officers or employees are the insured are taxable income to them in the amount of the premiums paid. However, such premiums paid do not constitute taxable income to officers and employees in the case of non-permanent group insurance.

Tax 2.85 Accommodations furnished, as part of compensation. (Section 71.03 (1) (1), Wis. Stats.) The reasonable value of accommodations furnished to officers or employes as part of their compensation, such as board and lodging to hotel managers, and use of residences furnished to clergymen, teachers, public employes and household servants, is taxable income.

Tax 2.86 Income from cancellation of government contracts. (Section 71.03 (1) (1), Wis. Stats.) Compensation under cancelled government contracts not reported in the return for the year in which claim therefor was filed must be included as income in the year in which such claim is allowed.

Tax 2.87 Contributions for line extension. (Section 71.03 (1) (1), Wis. Stats.) Amounts received by a public utility from its customers in consideration of the extension of its service lines are taxable income. If and when such amounts are subsequently refunded, they are valid deductions in the year of refund.