

Preparing Wisconsin Tax Returns

Background: Ladder Up will prepare Wisconsin tax returns for *full year Illinois residents* who have Wisconsin income during the year. The two most common examples are a client who lives in Illinois but works in Wisconsin, and an Illinois resident who has Wisconsin gambling income. The purpose of this document is to explain the process for preparing Wisconsin and Illinois state tax returns for such clients. (Ladder Up does not prepare returns for part year or full year Wisconsin residents because there are many credits and deductions for which such clients may be eligible. They should be referred to a paid preparer experienced in Wisconsin returns).

Reciprocity: Wisconsin and Illinois have a tax reciprocity agreement. What this means is that Wisconsin will generally not tax the employment income (salaries, wages, commissions, fees, etc.) earned by Illinois residents who work in Wisconsin. Reciprocity applies only to income earned as an employee. It does not apply to other types of income such as self-employment income or gambling income.

Illinois residents should not have Wisconsin income tax withheld on their Wisconsin income earned as an employee. To stop such withholding the employee should file form *W-220 Nonresident Employee's Withholding Reciprocity Declaration* with their employer. The employee can request that Illinois taxes be withheld but the employer is not required to do so. If the employee will owe more than \$500 of Illinois tax after withholding and credits, the employee may need to file estimated Illinois taxes during the year.

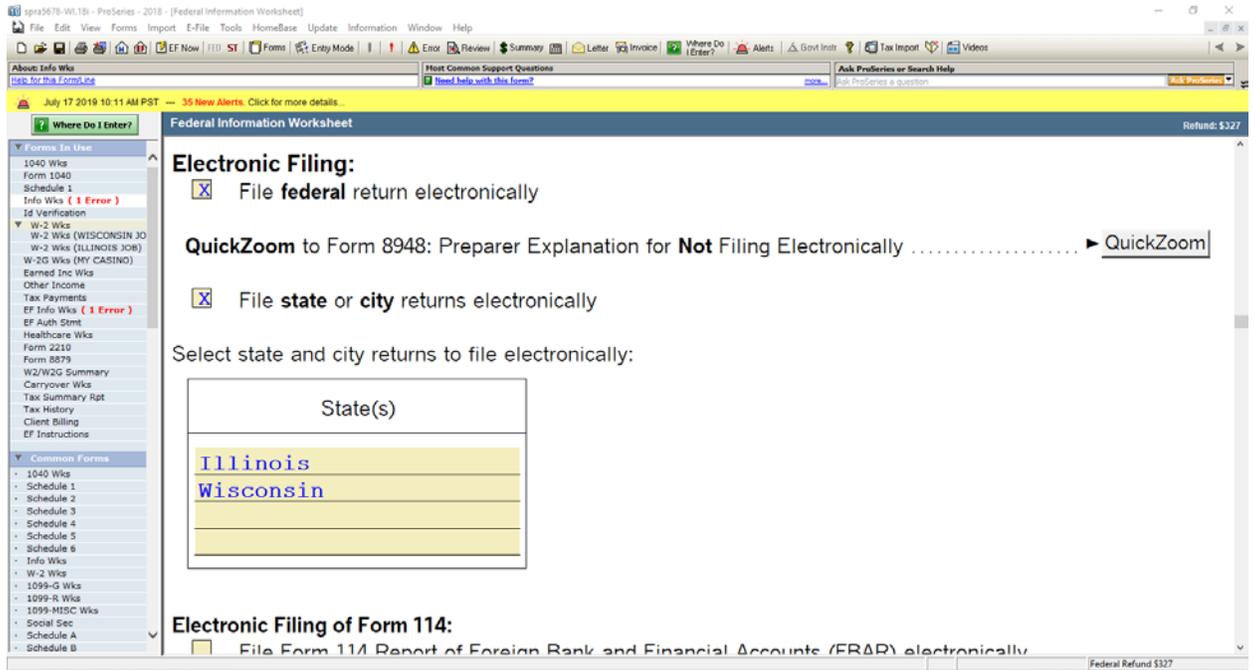
If Wisconsin taxes are withheld in error, a Wisconsin tax return must be filed to claim a refund. Illinois does not permit recovering such payments through filing an Illinois form CR. For other types of income, Wisconsin requires a non-resident to file a Wisconsin tax return if their Wisconsin income (not counting any income subject to reciprocity) is \$2,000 or more.

Initial Steps: No special certification is required to prepare Wisconsin tax returns. Because these are somewhat out of the ordinary it is advisable to have them prepared and checked by more experienced reviewers. You will need to have access to a computer that has the Wisconsin ProSeries software installed. See your site leader to obtain one of these. If your site does not prepare Wisconsin returns, the site leader can help you explain this to the client and refer them to another Ladder Up site that does. On the Client Data Sheet write WISCONSIN at the top of the form in letters large enough that nobody can miss them.

Federal Return: The federal return can now be prepared in the normal course with the following exceptions:

1. The file name should be the normal file name but with the letters “-WI” appended at the end. For example, client Jack Spratt with social security number 333-33-5678 will have the file name SPRA5678-WI.

- Once you have marked the return for e-file (assuming that the client is e-filing) you will need to populate Wisconsin as one of the returns to e-file immediately below where Illinois is automatically populated.



- In Part XI, which normally we are to leave blank, you should mark Illinois as the state of residence as of 12/31/2018 (or the end of whatever year you are preparing) and check "Full Year Resident" as the status.

Part XI – Part-Year and Nonresident State Return Filing Information Only

Caution: You do **not** need to enter any State information below unless a part-year or nonresident tax return must be filed or the state listed in Part I has changed since 12/31/2018.

State of residence as of 12/31/2018 .. ► **IL**

Full-year resident
 Part-year resident

If **part-year resident**, date residence established []
Former state of residence []

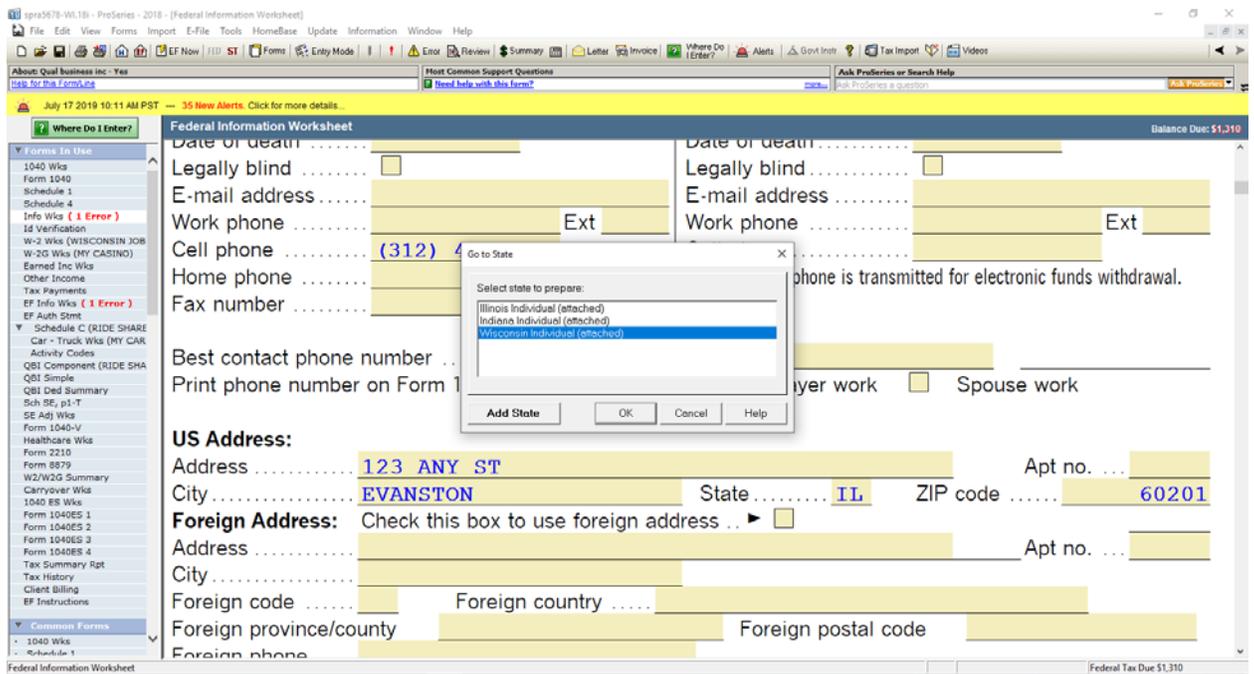
Nonresident State Filers: Taxpayer needs to file nonresident state return(s) in **2018**
Enter nonresident state(s) ID below:

State	Residency Status	Dates of Residency (Part-Year Residents only)	
		Taxpayer	Spouse (if different)
IL	Full-Year Resident	To []	To []

4. As you enter the client's tax documents (such as W-2 forms), make sure that you properly record the state. On the W-2 form, this will be shown explicitly. For some jobs, the client will have worked for the employer in both Wisconsin and Illinois. In that case, the W-2 form will often come with separate Illinois and Wisconsin W-2 forms (typically with the same amount of federal income shown on each). In such cases you will prepare a single W-2 worksheet, with separate lines in the state part for Wisconsin and Illinois income. Form W-2G (gambling winnings) does not show the state of withholding – you will need to deduce that from the city and state where the gambling winnings occurred.
5. Run an error check on the federal return and fix any problems.
6. If you fail to follow any of these steps at the outset, you can always correct the situation later. However, ProSeries is designed to work best when the steps are followed in the proper order, and failure to do so means you have to examine the state results especially carefully in order to detect unintentional errors.

Wisconsin Return: You are now ready to prepare the Wisconsin return. You should do this before you open the Illinois return because that way more of the entries will populate automatically. First, make sure that a Wisconsin return needs to be prepared. If the only Wisconsin income was W-2 income and no Wisconsin taxes were withheld, then no Wisconsin return is needed, and you can just prepare the Illinois return in the normal fashion. In the example that follows we are going to assume that the Wisconsin employer erroneously withheld Wisconsin taxes, that the taxpayer had Uber income of \$10,000 of which \$5,000 was from Wisconsin, and that the taxpayer had \$2,500 of Wisconsin gambling income from a casino.

1. When you click on the ST button at the top of the screen, if Wisconsin software has been loaded you will be offered a choice of states and should select Wisconsin. Click "OK" and the Wisconsin portion of the software will open.



2. On the Wisconsin Information Worksheet, go to the "Use Tax" section and click the box to confirm that no use tax is due (it won't be for a full year resident of Illinois).
3. Next, navigate to the Income Allocation Worksheet by clicking on it in the "Forms in Use" area at the left of the screen. Here, you may need to do up to four things based on the client's situation:
 - a. If the client had Wisconsin job income, change the amount in the line 1a "Wisconsin Amount" column to zero. Wisconsin income earned by Illinois residents is not reportable in Wisconsin due to reciprocity.

spra5678-wi.18 - ProSeries - 2018 - [Form 1NPR, Income Allocation Worksheet]

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Form 1NPR, Income Allocation Worksheet

WI Refund: \$394

Form 1NPR Income Allocation Worksheet 2018

Keep for your records

Name: JACK SPRATT Social Security Number: ***-**-5678

	Federal Amount	Wisconsin Amount	Non-Wisconsin Amount
1 a Wages, salaries, tips, etc	15,000.	0.	15,000.
b1 Military pay exclusion (federal only)			
b2 Reserve or Nat'l Guard exclusion (WI only)			
c Disability exclusion			
d Net wages, salaries, tips	15,000.		

Calculated Value State Refund \$394

- b. If the client had Wisconsin self-employment income, show the Wisconsin portion on line 6. This will typically need to be determined from the client's records if they had self-employment income both in Illinois and Wisconsin. Record that same amount in line 21a to allocate the federal adjustment for self-employment tax on that income.
- c. If the client had Wisconsin gambling income, make sure that is recorded in line 15.

spra5678-wi.18 - ProSeries - 2018 - [Form 1NPR, Income Allocation Worksheet]

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Form 1NPR, Income Allocation Worksheet

WI Refund: \$394

d Taxable dividend income			
4 Refunds of state/local income tax			
5 Alimony received			
6 Business income or loss	10,000.	5,000.	5,000.
7 Capital gain or (loss)			
8 Other gains or (losses)			
9 IRA distributions		0.	
10 Pensions and annuities		0.	
11 Rents, royalties, partnerships, estates, trusts, etc			
12 Farm income or (loss)			
13 Unemployment compensation			
14 Taxable social security benefits			
15 Other income (list) <u>Gambling Winnings</u>	2,500.	2,500.	0.
16 Add lines 1d, 2a, 2e, 3 through 13, 14b, and 15.	27,500.	7,500.	

JACK SPRATT Social Security Number: ***-**-5678 Page 2

- Run a Wisconsin error check and fix any errors. As is the case with Illinois returns, you can ignore e-file errors.

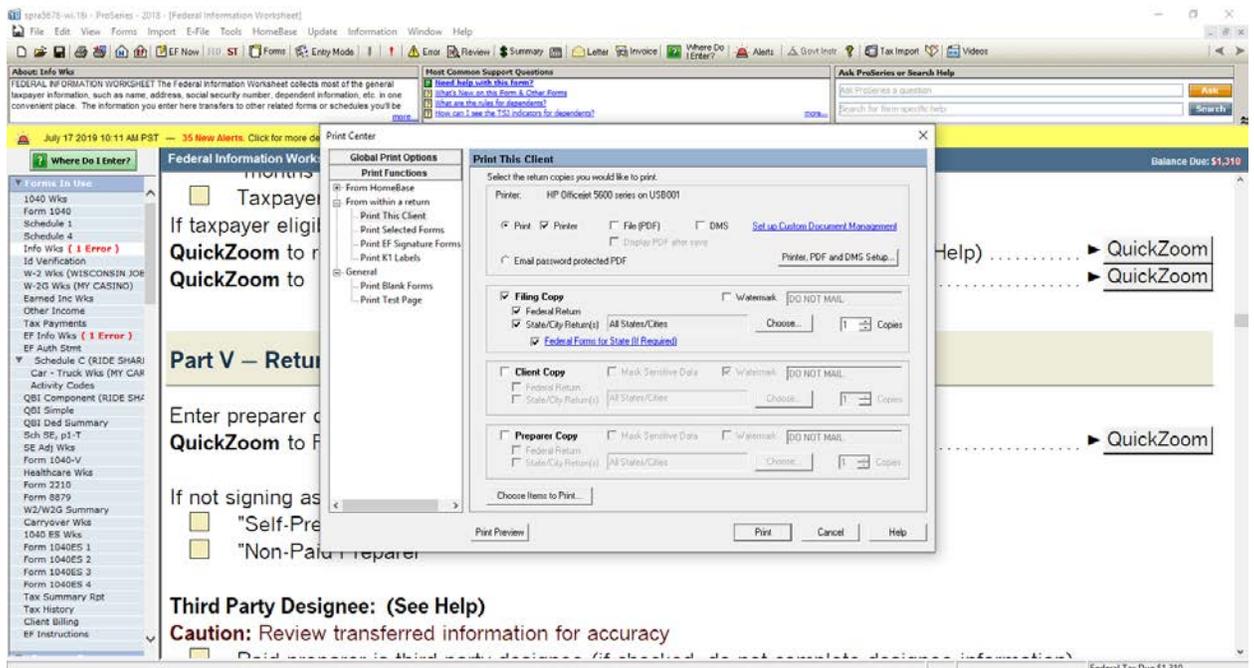
Illinois Return: You are now ready to prepare the Illinois return. Click on “ST” and choose “Illinois Individual” from the list of choices. If Schedule CR populates, you need to review it to make sure that the non-Illinois column of the Income section has been properly completed:

- In line 1, the non-Illinois portion should be zero since reciprocity assigns all Wisconsin job income to Illinois.
- In line 6, enter the Wisconsin portion of any self-employment income.
- In line 15, enter zero unless the client’s gambling winnings were from the Wisconsin lottery, in which case enter those winnings.
- In line 21a, enter the Wisconsin portion of any self-employment income.

Run an error check on the Illinois return and fix any errors.

Finalizing the Return: Now you are ready to complete the process by doing the following:

- Print the federal, Illinois and Wisconsin returns. If you followed the steps in the right order, when you click “File” and then “Print” you should see “All States/Cities” on the line for state returns. If that is not the case, use the drop-down box to populate the box appropriately.



- On the Client Data sheet, where we record the Refund and Amounts Owed, you will need to record both the Illinois and Wisconsin results. If we are only doing the state returns, you can

cross out the federal section, write in "Wisconsin" and record the results there. If you are preparing federal plus the two state returns, create a new column to the right of the Illinois column, mark it as "Wisconsin" and include all the same lines as for Illinois.

3. Explain the returns to the client, and get them to sign all of the e-file forms. Wisconsin does not require a signature page to e-file. However, for Ladder Up's purposes, we want a record that the client has seen the return. To do that, have the client sign and date the signature page of the Wisconsin return. Assemble the packet in the normal order, but with the Wisconsin signature page last.
4. If the client owes money to Wisconsin, form EPV should print and will give the address to which the payment should be sent. For paper returns, the payment should be attached (paper clips only) to the first page of the return.
5. If the client is paper filing, the filing address is listed underneath the signature block of the Wisconsin return. As is the case in Illinois, the address is different depending on whether or not a payment is enclosed.
6. The Wisconsin instructions state that paper clips rather than staples are to be used for assembling the pages of the tax return and any required enclosures or schedules. Other enclosures required are any tax forms with Wisconsin withholding, and a complete copy of the federal tax return (which you may need to print manually if ProSeries does not do so).