

# SCHEDULE I

WISCONSIN  
DEPARTMENT  
OF REVENUE

ADJUSTMENTS TO CONVERT 1976 FEDERAL  
ADJUSTED GROSS INCOME AND ITEMIZED  
DEDUCTIONS TO THE AMOUNTS ALLOWABLE  
UNDER THE INTERNAL REVENUE CODE ENACTED  
AS OF DECEMBER 31, 1975.

Attach to Wisconsin Form 1

# 1976

Name, address and social security number as shown on your return

## PART I - FEDERAL ADJUSTED GROSS INCOME

(Read instructions before completing Schedule I)

1. Enter your 1976 federal adjusted gross income from line 15c, Form 1040 .....
2. Adjustment for sick pay
  - a. Excludable sick pay from Wisconsin Schedule 2440W .....
  - b. Sick pay excluded from federal income on line 15b, Form 1040 .....
  - c. Subtotal (combine lines 1, 2a and 2b) .....
3. Supplemental schedule of gains or losses (federal Form 4797)
  - a. Enter any loss claimed on line 9(b)(2), Form 4797 .....
  - b. Enter any gain reported on line 9(b)(2), Form 4797 .....
  - c. Enter revised gain or loss from line 9(b)(2), Form 4797  
(attach revised Form 4797) .....
  - d. Subtotal (combine lines 3a, 3b, and 3c-indicate a loss by parenthesis) .....
4. Capital gains and losses (federal Schedule D and Form 4798)
  - a. Enter any loss claimed on line 30a, federal Form 1040 .....
  - b. Enter any gain reported on line 30a, federal Form 1040 .....
  - c. Enter revised capital gain or loss from line 30a, Form 1040 (attach revised  
Schedule D, Form 4798 and any accompanying schedules) .....
  - d. Subtotal (combine lines 4a, 4b and 4c-indicate a loss by parenthesis) .....
5. Subtotal (combine lines 2c, 3d and 4d) .....

6. Other adjustments:

Description	Amount		Difference
	Amount per 1976 federal return	determined under 12/31/75 IRC	
a. _____	_____	_____	_____
b. _____	_____	_____	_____
c. _____	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
h. _____	_____	_____	_____
i. Total Difference (combine the "Difference" column for lines 6a through 6h) .....	_____	_____	_____

7. Federal adjusted gross income as computed under the 12/31/75 Internal Revenue Code (combine lines 5 and 6i). Enter here and on line 1 of Wisconsin Form 1. (If the above figures are from a joint federal return and both spouses have income, first enter this total on line 39, column A, Part I on page 2 of Form 1. Complete columns A, B and C of Part I. Carry forward the amounts from line 39, columns B and C to line 1 of Form 1.) .....

Register, April, 1978, No. 268

DEPARTMENT OF REVENUE

34-15

(Complete reverse side of form)

### PART II - ITEMIZED DEDUCTIONS

- This part must be completed whenever adjustments have been made in Part I and deductions are itemized.
- Even though Part I is not used, it will be necessary to complete this part if an adjustment is required for such items as investment interest limitation, child care (household and dependent care) expenses, and office in the home expenses.

8. Enter your 1976 federal itemized deductions from line 40, federal Schedule A .....
9. Child care (household and dependent care) expenses—enter allowable deduction from line 16, Wisconsin Schedule 2441W .....

10. Other adjustments:

Description	Amount per 1976 federal return	Amount determined under 12/31/75 IRC	Difference
a. Medical expense	_____	_____	_____
b. Contributions	_____	_____	_____
c. Sales tax	_____	_____	_____
d. Interest expense	_____	_____	_____
e. Other (specify) _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
h. _____	_____	_____	_____
i. _____	_____	_____	_____
j. Total Difference (combine the "Difference" column for lines 10a through 10i) .....	_____	_____	_____

11. Itemized deductions as computed under the 12/31/75 Internal Revenue Code (combine lines 8, 9 and 10j). Enter here and on line 6 of Wisconsin Form 1. ....

## INSTRUCTIONS FOR COMPLETING WISCONSIN SCHEDULE I-1976

**INTRODUCTION**—The Wisconsin Statutes require that the computation of taxable income on the 1976 Wisconsin income tax return is to be based on the Internal Revenue Code enacted as of December 31, 1975. Changes to the Internal Revenue Code enacted after that date do not apply for Wisconsin income tax purposes. Thus, certain income and deduction items may be different for federal and Wisconsin purposes. Those differences must be adjusted on this schedule.

**WHO MUST FILE**—If the computation of a person's federal adjusted gross income or federal itemized deductions reflects any of the changes in federal income tax law which are listed below, this schedule must be completed and attached to the Wisconsin income tax return, Form 1. If a married couple is filing a joint federal return, only one Schedule I should be prepared and it should be based on the joint income and deduction amounts reported on the federal return.

**PARTNERS and BENEFICIARIES OF ESTATES AND TRUSTS**—The income and deduction items computed on the Wisconsin returns of partnerships, estates and trusts may also be affected by the differences between Wisconsin and federal law for 1976. As a result, the distributive share of these items which are reportable on the individual Wisconsin income tax returns of the respective partners and beneficiaries may differ for Wisconsin and federal income tax purposes. Such partners and beneficiaries should receive notification from the partnership, estate or trust of the amounts reportable for Wisconsin purposes. By comparing the amounts reportable for Wisconsin and federal purposes, the partner or beneficiary should determine the items which differ and make the appropriate adjustments on Schedule I.

Wisconsin residents who are members of partnerships or beneficiaries of estates or trusts which are not required to file Wisconsin returns may not receive notification from the partnership, estate or trust of the items reportable for Wisconsin purposes. Such residents should determine if any adjustments are required on Schedule I.

A list of the differences in Wisconsin-federal law which affect only the computation of income receivable from a partnership may be found in section C on page 4. Certain items in section A may also affect such income.

### SPECIFIC INSTRUCTIONS

(Numbered to correspond with the line numbers on Schedule I)

#### INSTRUCTIONS FOR PART I

1. Enter your 1976 federal adjusted gross income as shown on line 15c of your federal return, Form 1040. If you are married and filing a joint federal return, this figure will be your joint federal income.
2. If the sick pay excludable from your Wisconsin income differs from the sick pay (disability income) excluded from federal income, enter on line 2a the excludable sick pay computed on Wisconsin Schedule 2440W. On line 2b, enter the sick pay (disability income) excluded from federal income on line 15b, Form 1040.
3. If you sold or otherwise disposed of certain property during 1976, the gain or loss reportable from such sale may differ for Wisconsin and federal purposes. (The provisions of federal law which may produce such differences are described in section A.) To properly report such gain or loss on your Wisconsin return, it may be necessary to remove all gain or loss included in your federal adjusted gross income. This is done by entering the appropriate figure on line 3a or 3b, or 4a or 4b. Then enter the revised gain or loss figure on line 3c or 4c, and attach to Form 1 a revised federal Schedule D or Form 4797 or 4798 marked "Revised to 12/31/75 IRC".
6. See the listing under ITEMS REQUIRING ADJUSTMENT for other items that require adjustment. Enter on lines 6a through 6h each of the items for which an adjustment is being made.

#### INSTRUCTIONS FOR PART II

8. Enter your 1976 federal itemized deductions from line 40 of federal Schedule A.
9. Persons incurring expenses for household and dependent care services (child care) which qualify as an itemized deduction on their Wisconsin return must complete Wisconsin Schedule 2441W. Enter on line 9 of Schedule I the allowable deduction as shown on line 16 of Wisconsin Schedule 2441W. CAUTION—persons claiming the standard deduction on their Wisconsin return cannot claim a deduction for these expenses.
10. See the listing (section B on page 4) under ITEMS REQUIRING ADJUSTMENT for details on adjustments that may be necessary to other deductions.  
Whenever federal adjusted gross income has been increased or decreased in Part I of Schedule I, itemized deductions for medical expense, sales tax and contributions may also require adjustments. The deductible amount of those items is determined by using federal adjusted gross income, as computed under the 12/31/75 Internal Revenue Code.

#### ITEMS REQUIRING ADJUSTMENT

(All of the following changes in federal law were part of Public Law 94-455, enacted October 4, 1976, except for items 38 and 40 which were part of

Public Law 94-253, enacted March 31, 1976, and Public Law 94-267, enacted April 15, 1976, respectively.)

Listed below are brief explanations of differences between the Internal Revenue Code for 1975 and 1976. The "Federal" explanation indicates how an item is to be treated for federal income tax purposes under the December 31, 1976 Internal Revenue Code. The "Wisconsin" explanation indicates how the item is to be treated for Wisconsin purposes under the Internal Revenue Code enacted as of December 31, 1975.

If you need additional information regarding any of these items, contact any Wisconsin Department of Revenue office.

#### A. ITEMS AFFECTING THE COMPUTATION OF FEDERAL ADJUSTED GROSS INCOME\*

##### 1. Sick Pay Exclusion:

(a) Federal— The sick pay exclusion is no longer available to taxpayers who are only temporarily absent from work. A taxpayer must now be permanently and totally disabled to exclude any portion of income as sick pay. Also, any exclusion available must be reduced on a dollar-for-dollar basis by the amount of the taxpayer's adjusted gross income (as computed before the sick pay exclusion) in excess of \$15,000. Waiting periods are no longer imposed for purposes of determining the amount of a sick pay exclusion.

(b) Wisconsin— Taxpayers who are temporarily absent from work due to sickness or injury continue to be eligible for a sick pay exclusion and no reduction in the amount excludable is required when income exceeds \$15,000. Waiting periods continue to apply with respect to the amount of exclusion available during the first 30 calendar days of absence. (Wisconsin Schedule 2440W should be completed to determine the proper amount of sick pay excludable for Wisconsin purposes.)

##### 2. Federal Employee Disability Pensions:

(a) Federal— Members of the armed forces, the National Oceanic and Atmospheric Administration, the Public Health Service or the Foreign Service, who first enter the service of such organization after September 24, 1975, may be limited as to the amount of disability income (received for non-combat injuries) which they may exclude from their taxable income.

(b) Wisconsin— All disability payments received by such individuals are excludable from income.

##### 3. Rental of Vacation Homes:

(a) Federal— A limitation (14 days or 10% of the days rented, whichever is greater) is placed on the amount of personal use which may be made of rental vacation property without reducing rental expenses attributable to such property. Deductible expenses are limited to the amount of rent derived from the property whenever personal use exceeds the limitation. However, a minimum rental use provision is also created to provide that when a vacation home is rented out for fewer than 15 days in any taxable year, the rental income derived may be excluded from gross income and no rental expenses may be deducted.

(b) Wisconsin— Income derived from the rental of a vacation home must be reported regardless of the extent of rental activity. Losses incurred are subject to the provisions of Section 183 of the Internal Revenue Code, relating to activities not engaged in for profit.

##### 4. Business Use of Personal Residence:

(a) Federal— The deduction of business expenses (e.g., office-in-home) attributable to a taxpayer's personal residence is generally restricted to cases where a portion of the home is used for business purposes on an exclusive and regular basis. Combined (business and personal) use or occasional use of a portion of the home will not meet the exclusive use test. In the case of employees, any business use of the home must also be for the convenience of their employer.

\*Note: Items 4, 11, 30, 32, 33 and 36 may also affect the computation of federal itemized deductions in certain cases.

- An overall limitation (measured by the income produced by the business activity) is placed on the amount of business expenses which may be deducted.
- (b) Wisconsin- Expenses may be deducted for the partial use of residential property for business purposes, even though not attributable to a portion of the home used on an exclusive basis. Deductible amounts are not limited by the income generated by the business activity in the home.
- 5. Cancellation of Student Loans:**
- (a) Federal- The forgiveness of all or a portion of student loans funded by federal, state or local government programs will not produce taxable income when such forgiveness is contingent upon the recipient working for a specified period of time in a certain area or for a certain class of employer.
- (b) Wisconsin- Any portion of a student loan which is forgiven must be included in the recipient's income for the year in which it is forgiven.
- 6. Political Party Debts:**
- (a) Federal- Certain taxpayers using the accrual-basis method of accounting may now claim a business bad debt deduction for worthless debts owed by a political party or committee, if certain requirements are met.
- (b) Wisconsin- No deduction is allowable for a worthless debt owed by a political party or committee.
- 7. Crop Disaster Payments:**
- (a) Federal- Disaster payments received by cash-basis farmers under the authority of the Agricultural Act of 1949 for crop damage or destruction will be treated in the same manner as crop insurance proceeds. That is, an election may be made to delay including such payments in income until the year after receipt, provided that income from the crops involved would normally be reported in that year.
- (b) Wisconsin- A cash-basis farmer will be required to report such disaster payments as income in the year received.
- 8. Preservation of Historic Structures:**
- (a) Federal- Several tax incentives are provided to encourage the preservation and rehabilitation of historic structures listed in the National Register or certified by the Department of the Interior. Essentially, they consist of rapid write-off provisions for rehabilitation expenditures, and restrictions on deductions for demolition costs and depreciation of newly constructed buildings.
- (b) Wisconsin- Expenditures relating to historical structures will continue to be treated in the same manner as those for other types of property.
- 9. Qualified Stock Options:**
- (a) Federal- Qualified stock option rules for employe plans have been repealed as of May 20, 1976. This means most stock options granted after that date will produce income which must be reported by the recipient either in the current year or at the time the option is exercised. (However, options granted under plans adopted prior to May 20, 1976, will continue to receive special treatment if they are exercised before May 20, 1981.)
- (b) Wisconsin- Stock options granted under "qualified" plans will continue to receive special tax treatment. The recipient will not be required to report any income at the time the option is granted or when it is exercised. Rather, the recognition of income is postponed until the option or any stock acquired under it is sold.
- 10. Livestock Sold Because of Drought:**
- (a) Federal- Farmers who use the cash-basis method of accounting may elect to delay including the proceeds from drought caused sales of certain livestock in income until the following taxable year. This election is available only to farmers located in drought areas designated as eligible for federal assistance.
- (b) Wisconsin- A cash-basis farmer must report the proceeds from all livestock sales as income in the year received.
- 11. Construction Period Interest and Taxes:**
- (a) Federal- A limitation is placed on the amount of construction period interest and taxes which may be deducted in the year paid or accrued with respect to nonresidential real property, the construction of which began in 1976. A minimum of 50% of such expenses must be capitalized for amortization after the property is available for use or sale.
- (b) Wisconsin- Construction period interest and taxes on nonresidential property may either be deducted currently or capitalized, at the election of the taxpayer.
- 12. Gain From Condemnation of Real Property:**
- (a) Federal- Additional time is allowed to acquire replacement property for purposes of deferring the recognition of a gain from property which has been disposed of due to condemnation proceedings. The replacement period is now three years.
- (b) Wisconsin- The replacement period remains at two years. If qualifying replacement property is not acquired within that time, any gain resulting from the condemnation sale must be included in Wisconsin taxable income.
- 13. Recapture of Depreciation on Certain Real Property:**
- (a) Federal- All post-1975 accelerated depreciation (with the exception of that claimed on certain government subsidized housing) will be treated as ordinary income, rather than capital gain income at the time the property is sold.
- (b) Wisconsin- The portion of accelerated depreciation which will be treated as ordinary income will continue to be determined under the Internal Revenue Code in effect on December 31, 1975.
- 14. Gain on Sales Between Related Parties:**
- (a) Federal- The provisions restricting capital gain treatment when a sale or exchange is between related individuals or between an individual and a controlled corporation have been broadened for transactions taking place after October 4, 1976.
- (b) Wisconsin- The definitions of "related parties" will continue to be determined under the Internal Revenue Code in effect on December 31, 1975.
- 15. Outdoor Advertising Displays:**
- (a) Federal- Certain outdoor advertising displays involuntarily converted through condemnation may be regarded as real property rather than tangible personal property. This will allow taxpayers to acquire replacement real property and defer the recognition of a gain from the conversion.
- (b) Wisconsin- Such property will continue to be regarded as personal property and any gain realized from the involuntary conversion must be included in Wisconsin taxable income.
- 16. Mutual Funds Tax Exempt Interest:**
- (a) Federal- A distribution of state or local municipal bond interest received from certain mutual funds will retain its character as tax exempt income. Thus the recipient may exclude such amount from taxable income.
- (b) Wisconsin- Such interest will not retain its character as tax exempt income when distributed by a mutual fund, and must be included in income.
- 17. Exchange Fund Partnerships:**
- (a) Federal- Gain will be recognized when appreciated property is transferred, after February 17, 1976, to a partnership constituting an investment company and results in a diversification of investments.
- (b) Wisconsin- No gain will be recognized at the time of such transfer.
- 18. Armed Forces Health Professions Scholarships:**
- (a) Federal- Amounts received under the above scholarship program in 1976 may be excluded from taxable income.
- (b) Wisconsin- Such amounts must be included in income.
- 19. Income Earned In Foreign Country:**
- (a) Federal- The income exclusion permitted to certain U.S. citizens earning income in a foreign country has been reduced to \$15,000 annually.
- (b) Wisconsin- This exclusion will be determined under the Internal Revenue Code in effect on December 31, 1975.

- 20. Pollution Control Facilities:**
- (a) Federal- The cost of certain pollution control facilities may be amortized over a 5-year period.
  - (b) Wisconsin- Such expenditures must be depreciated over the useful life of the facility. (However, it should be noted that special write-off provisions may be available for such facilities under s. 71.05 (1) (h) or (i) of the Wisconsin Statutes.)
- 21. Owner-Employee Retirement Plan Contributions:**
- (a) Federal- Contributions by an owner-employee to a Keogh type retirement plan which is a level-premium annuity contract may be made without regard to the 25% of earned income limitation.
  - (b) Wisconsin- Such retirement plan contributions will continue to be subject to the 25% of earned income limitation.
- 22. Minimum \$750 Contribution to Retirement Plans of Self-Employed Individuals:**
- (a) Federal- Self-employed individuals having an adjusted gross income of less than \$15,000 may make contributions of up to \$750 to a Keogh type retirement plan without regard to the 25% of earned income limitation.
  - (b) Wisconsin- Such retirement plan contributions will continue to be subject to the 25% of earned income limitation.
- 23. Individual Retirement Accounts:**
- (a) Federal- Members of the Armed Forces Reserves, the National Guard and volunteer fire-fighters may qualify for an Individual Retirement Account deduction regardless of the fact that they participate in a military or government retirement plan.
  - (b) Wisconsin- Such individuals will not be allowed to deduct contributions made to an Individual Retirement Account.
- 24. Tax Sheltered Annuities:**
- (a) Federal- Amounts contributed by certain tax exempt employers to provide annuities for employees may now be invested in regulated investment companies which issue either redeemable or non-redeemable shares (i.e., open-end or closed-end mutual funds) without the employee having to recognize income currently.
  - (b) Wisconsin- Such contributions must be invested in regulated investment companies which issue redeemable shares in order to be excludable from an employee's income.
- 25. Sports Franchisees:**
- (a) Federal- New methods are prescribed for allocating a portion of the purchase price of a sports franchise to depreciable player contracts. Also, the depreciation recapture provisions relating to sales of player contracts have been altered.
  - (b) Wisconsin- Allocation of purchase price and depreciation recapture amounts will continue to be determined under the Internal Revenue Code in effect on December 31, 1975.
- 26. Production Costs of Films, Books, Records, Etc.:**
- (a) Federal- Amounts attributable to the production of a film, book, record or similar property must be capitalized and deducted over the period that such property will produce substantially all of its income.
  - (b) Wisconsin- All or a portion of such expenses may be deducted in the year paid or accrued.
- 27. Low-Income Housing Rehabilitation Expenditures:**
- (a) Federal- Certain expenditures incurred to rehabilitate low-income rental housing may be amortized over a 5-year period.
  - (b) Wisconsin- Such expenditures must be depreciated over the useful life of the improvements made.
- 28. Recapture of Intangible Drilling Costs:**
- (a) Federal- Previously deducted intangible drilling expenses will be treated as ordinary income upon sale of oil and gas properties, to the extent such deductions exceed amounts which would be allowed if the expenses were capitalized and amortized over the useful life of the well.
  - (b) Wisconsin- Amounts previously deducted for such expenditures are not subject to the recapture provisions.
- 29. Option Closing Transactions:**
- (a) Federal- The writer of certain securities options will realize short-term capital gain or loss from closing transactions involving options granted after September 1, 1976.
  - (b) Wisconsin- Gain or loss on such transactions will continue to be treated as ordinary rather than capital gain income.
- 30. Nonresident Aliens:**
- (a) Federal- A nonresident alien married to a U.S. citizen may elect to be taxed as a citizen. As a result, such individual will be subject to tax on his or her entire worldwide income, but also will be allowed to claim the standard deduction, low-income allowance or itemized deductions available to U.S. citizens.
  - (b) Wisconsin- Such individual will continue to be treated as a nonresident alien. Generally, only income from U.S. sources will be includable in income and only amounts attributable to U.S. business activities, charities or properties are allowable as deductions.
- 31. Farmers' Excess Deduction Account:**
- (a) Federal- No further additions to excess deduction accounts have to be made for losses sustained after the tax year 1975.
  - (b) Wisconsin- Farm losses deducted against non-farm income must continue to be accumulated in excess deduction accounts. Thus, gains from the sale of farm property will continue to be subject to farm loss recapture provisions.
- 32. Prepaid Interest:**
- (a) Federal- Taxpayers using the cash-basis method of reporting may only deduct prepaid interest expense in the tax year in which the interest represents a charge for the use of the funds borrowed. In other words, the interest expense must be prorated over the term of the loan and deducted accordingly.
  - (b) Wisconsin- Cash-basis taxpayers may deduct prepaid interest expenses in the year paid, if such advance payment is for a period not extending more than 12 months beyond the end of the current taxable year and the deduction will not materially distort income.
- 33. Investment Interest:**
- (a) Federal- The amount of interest on investment indebtedness which is deductible in any one taxable year is limited to \$10,000, plus the taxpayer's net investment income. Investment interest which is not deductible for any taxable year can be carried over without limitation to future years.
  - (b) Wisconsin- The limitation regarding deductible investment interest applicable for taxable year 1975 will be retained for Wisconsin purposes. Generally, the limitation is \$25,000, plus net investment income and long-term capital gain income, plus one-half of any interest exceeding these amounts. Investment interest which is not deductible in the current year can be carried over to future years, but may be subject to further limitation in the carry-over year as provided by the Internal Revenue Code in effect on December 31, 1975.
- 34. Losses Limited to Amounts "At Risk":**
- (a) Federal- Operating losses attributable to certain types of business activities may be deducted only to the extent of investment which is "at risk". The specific activities are: (1) Holding, producing or distributing motion picture films or video tapes; (2) Farming (but not farming operations involving trees other than fruit or nut trees); (3) Equipment leasing; or (4) Exploring for or exploiting of oil and gas resources.
  - (b) Wisconsin- The amount of operating loss which may be deducted with respect to the above activities will not be subject to the "at risk" limitation.
- 35. Income From Controlled Foreign Corporations:**
- (a) Federal- Certain investments made by controlled foreign corporations will no longer result in U.S. shareholders having to include amounts of undistributed corporate earnings and profit in their income. The specific investments involved are those in (1) stock or debts of an unrelated

domestic corporation and (2) movable oil and gas drilling rigs for use on the U.S. continental shelf.

- (b) Wisconsin- Shareholders of controlled foreign corporations which invest in the above types of U.S. property may be required to report undistributed earnings and profits of such corporations as income.
- 36. Bad Debt Deductions:**
- (a) Federal- Losses arising from the guaranty of a loan (other than a loan to a corporation) may not be deducted unless the guaranty agreement was entered into for profit or as part of the guarantor's trade or business. Losses attributable to trade or business activities are deductible as ordinary losses. Those attributable to transactions entered into for profit must be deducted as short-term capital losses.
- (b) Wisconsin- Losses incurred as the result of guaranteeing loans of other individuals will continue to be deductible, even though the guarantee may not have been related to the guarantor's trade or business or entered into for the purpose of realizing a profit. Those losses which are related to the guarantor's trade or business are deductible as ordinary losses. Others must be deducted as short-term capital losses. However, an exception exists where although the guarantee is not related to the guarantor's business, the loan proceeds were used for business reasons by the actual borrower. In this instance the loss may be deducted as an ordinary loss.
- 37. International Boycotts and Bribes of Foreign Officials:**
- (a) Federal- U.S. shareholders of a controlled foreign corporation must report as income a pro-rata share of the corporation's nondistributed income attributable to boycott activities and any illegal payments that have been made to foreign officials.
- (b) Wisconsin- No income will result from either of the above activities.
- 38. ConRail Securities Exchanges:**
- (a) Federal- Tax-free treatment has been extended to the exchange of stocks and securities held in eleven insolvent eastern U.S. railroads for others upon the formation of ConRail (Consolidated Rail Corporation).
- (b) Wisconsin- This automatic tax-free treatment for such exchanges will not apply. The proper treatment for these exchanges must be determined on the basis of the provisions of the Internal Revenue Code in effect on December 31, 1975.
- 39. Depletion-Oil and Gas Wells:**
- (a) Federal- The exemption permitting small producers to claim percentage depletion on certain oil and gas properties has been modified.
- (b) Wisconsin- The qualifications to be met for purposes of claiming percentage depletion will continue to be determined under the Internal Revenue Code in effect on December 31, 1975.
- 40. Tax-Free Rollovers of Retirement Plan Proceeds:**
- (a) Federal- Tax-free rollover provisions have been made available to employees who receive distributions from retirement plans which have been discontinued by their employers. When such amounts are properly reinvested into a new retirement plan, the recognition of any gain is postponed.
- (b) Wisconsin- Such distributions must be included in Wisconsin income for the year in which received.
- 41. Foreign Trust Income:**
- (a) Federal- Income produced by assets transferred to a foreign trust may be taxed directly to the person (grantor) making such transfer.
- (b) Wisconsin- Such income will not be taxable to the grantor.

## B. ITEMS AFFECTING THE COMPUTATION OF FEDERAL ITEMIZED DEDUCTIONS

### 42. Child Care Expenses:

- (a) Federal- Child care expenses are no longer allowable as an itemized deduction. Rather, a portion of such expenses is allowed as a credit which is applied directly to the taxpayer's federal income tax liability. In addition, certain eligibility requirements have been changed and the adjusted gross income limitation has been removed.
- (b) Wisconsin- An itemized deduction will continue to be allowed for employment related child care expenses. However, 1975 eligibility requirements will apply and the amount of any deduction will be reduced when adjusted gross income exceeds \$35,000. (Wisconsin Schedule 2441W should be completed to determine the amount of child care expenses allowable as an itemized deduction.)

### 43. Contributions of U.S. Government Publications:

- (a) Federal- A deduction for a contribution of U.S. Government publications to charity after October 4, 1976 will be allowed only for the amount paid for such publications.
- (b) Wisconsin- Deductions for contributions of such items may continue to be based on their fair market value.

### 44. Foreign Tax Paid:

- (a) Federal- An itemized deduction for foreign taxes may not include any amount of tax which is allocable to income excludable from federal adjusted gross income.
- (b) Wisconsin- The full amount of foreign taxes paid will be allowable as an itemized deduction.

### 45. Contributions of Partial Interests In Real Property:

- (a) Federal- A deduction is allowed for a contribution, exclusively for conservation purposes, of a partial interest in an historic land area or structure.
- (b) Wisconsin- Such contributions will not be deductible.

## C. ITEMS AFFECTING THE COMPUTATION OF PARTNERSHIP INCOME

### 46. Farming Syndicates:

- (a) Federal- Generally, farming syndicates (partnerships) which were either established during 1976 or had a membership change during 1976 are required to deduct expenses for feed, seed, fertilizer and other farm supplies when such items are used or consumed (not when paid for); and to capitalize the costs of poultry and preproductive orchard, vineyard or citrus grove expenses.
- (b) Wisconsin- Subject to certain limitations, such expenses may be deducted in the year paid or accrued for Wisconsin purposes.

### 47. Additional First-Year Depreciation:

- (a) Federal- The total amount of first-year depreciation that a partnership may pass through to all partners is limited to \$2,000.
- (b) Wisconsin- Partnerships may pass through up to \$4,000 of additional first-year depreciation to each partner.

### 48. Retroactive Allocations:

- (a) Federal- Income or losses are allocable to partners only for the portion of a year in which a partner is a member of the partnership.
- (b) Wisconsin- Retroactive allocations of income or loss continue to be subject to the provisions of the Internal Revenue Code in effect on December 31, 1975.

### 49. Special Allocations:

- (a) Federal- Special allocations of income, loss, deduction or credit items among partners are restricted.
- (b) Wisconsin- Special allocations may be allowed if their purpose is not to avoid or evade income tax.