

# Accountability

## Individual Wisconsin and Small Business Tax Updates



December 2011

### President's Message

*It's hard to believe that year-end is already here and tax season is just around the corner. This Holiday season will go by fast, as it always does, so slow down and take some time to enjoy this wonderful time of year with family and friends.*

*This issue of Accountability is filled with many positive tax law changes from the State of Wisconsin. Please pay particular attention to the sales and use tax issue for individual state income tax returns.*

*Have a safe and joyous Holiday Season and a prosperous New Year!*

*Julie A Huth*

### Highlights of the changes in Wisconsin Individual Tax Preparation

**1. "New checkmark for Sales and Use Tax Due on Out-of-State Purchases":** For many years, Wisconsinites have had to pay sales and use tax via their state income tax return, on purchases in which

sales and use tax was not charged. These purchases take place in Wisconsin and usually occur over the internet or thru a catalog company.

Many Wisconsinites owe sales and use tax, and it is worth thinking about your purchases and checking receipts to make sure sales and use tax was charged. This year, a space will be provided on the Wisconsin tax return for a **checkmark** that **certifies** that the individuals on the tax return **do not owe any sales or use tax**. This means that your tax preparer will have to ask you this question via an organizer or in person, in order to provide the checkmark. Taxable purchases include just about everything; I.E. clothing, furniture, carpet, jewelry, books, computers, CD's, DVD's and coins purchased over face value. If these items are purchased from out-of-state or out-of-country firms and you are not charged sales and use tax, then you have to pay the sales and use tax rate for the county that you live in-- Outagamie County is 5%, Milwaukee is 5.6%, most counties are 5.5%.

**2. State Subtraction for Child and Dependent Care Expenses:** This is new for 2011. The qualifications for this "subtraction" are the same as the federal credit. The Wisconsin subtraction is equal to the Federal 1040 child and dependent care credit up to \$750 if one qualifying person or up to \$1500 if more than one qualifying person. The amount will be increasing every year until 2014, then the max will be up to \$3000 if one qualifying person and up to \$6000 if more than one qualifying person. The subtraction occurs on the "Other Subtractions" line, Code 28. This is not a tax credit for Wisconsin purposes, but a subtraction from income.

**3. State Subtraction for Tuition and Fee Expenses:** The amount of this subtraction has increased to \$6185 per student. It is for qualified post-secondary education for tuition paid to a Wisconsin school. This subtraction starts phasing out for single and head-of-household taxpayers who's federal AGI is between \$50,000 and \$60,000; and for married filing joint who's federal AGI is between \$80,000 and \$100,000.

**4. Wisconsin treatment of Health Insurance Benefits for Adult Children is the same as federal treatment:** The FMV of health insurance benefits for adult children (under age 27 on December 31<sup>st</sup>) is no longer imputed state income. Retroactive to January 1, 2011, employers will not be adding the health insurance FMV to state W-2 wages. In addition, employees will receive credit on their state income tax return if taxes were withheld based on additional income created from the FMV of the health insurance benefit.

**5. Wisconsin Treatment of Health Savings Accounts is the same as federal treatment:** A Schedule I adjustment is no longer required for contributions to HSA's. Also, amounts contributed to a health savings account by an employer are not taxable wages; interest on the account is tax-free; and distributions used for qualified medical expenses are not taxable. The Wisconsin penalty for distributions not used for qualified medical expenses is 6.6%; the federal penalty is 33%.

**6. Wisconsin Health Insurance Deduction:** This deduction *does not* apply to health insurance premiums that are deducted pre-tax (not included in W-2 wages). If you are an employee and pay a portion of your health insurance premiums and they are included in your W-2 wages, you can subtract 25% of the premiums paid from your Wisconsin income when filing your state income tax return. This percentage is going to increase to 45% in 2012, and 100% in 2013 and beyond.

If you are unemployed or self-employed, your subtraction is 100%. This includes retired persons who pay premiums for Medicare Part B or D.

### Important Small Business Issues

**New Form 1099-K:** This form is something you may receive from a credit card processing center (which can be a bank) or third party network (PayPal, Ebay). In order to receive this form, your business had to generate at least \$20,000 in sales and processed an "aggregate" amount of 200 transactions with the credit or debit processing company. Because a copy of the form is sent to the IRS, this form gives the government more information so they can determine if a business is correctly reporting their sales.

**Increased 1099 and 1096 (Information Return) Penalties:** Many small businesses issue 1099-Misc, 1099-Int, and 1099-Div's. The IRS has increased penalties for "failure to file correct information returns by the due date". Please notice the word "correct". Unless you can show reasonable cause, you must file

the returns on time, with all the required information, and the correct information. Some businesses are taking the following stance with their 1099-type vendors, "I can't pay you unless you correctly and completely fill out a W-9". A W-9 gives the information needed to correctly fill out a form 1099.

If you do not correctly file the return by the due date (February 28 for 1099's and 1096's), businesses with gross annual receipts under \$5 million are subject to the following penalties:

- \$30 per return if correctly filed within 30 days after the due date (i.e. by March 30); \$75,000 maximum penalty
- \$60 per return if correctly filed more than 30 days after the due date but before August 1; \$200,000 maximum penalty
- \$100 per return if filed after August 1 or if returns are not filed; \$500,000 maximum penalty

### Important Issues for Individuals and Businesses

**Suspicious email from the IRS:** The IRS or IRS related entities such as EFTPS or the "Office of Fiscal Responsibility" will **never** send an email requesting personal information, financial information, pin numbers or passwords. If you receive an email of this type-- do not open it and do not reply. Please forward the email to [phishing@irs.gov](mailto:phishing@irs.gov).

**Suspicious fax, letter, or phone call from the "IRS":** Contact the IRS at 1-800-829-1040.

If you want more information, go the [www.IRS.gov](http://www.IRS.gov) and search the word "phishing". You will receive links on the IRS website that give you more information concerning bad websites and a few samples of email scams.

**Returning Heroes and Wounded Warrior Tax Credits:** Signed on November 21, 2011, this credit applies to veterans that have been unemployed for at least 4 weeks. A 40% tax credit on the first \$6000 of wages (up to \$2400 tax credit) is available to businesses that hire veterans who been unemployed for at least 4 weeks. A 40% tax credit on the first \$14,000 of wages (up to \$5600) is available for those who have been unemployed longer than six months. A new credit of 40% of the first \$24,000 (up to \$9600) is available to business that hire veterans with "service-connected disabilities" that have been unemployed for over 6 months. Details on claiming the credit are forthcoming.

Please contact us with any of your questions, we would be happy to help you in any way that we can.