

## 2009 WISCONSIN BUDGET

On June 29, 2009, the State of Wisconsin Budget for fiscal year 2009 – 2011 was signed by the governor. The following summarizes some of the key tax changes that were included.

**Additional income tax bracket.** The budget creates a fifth income tax bracket beginning in 2009 for taxpayers with taxable income exceeding (a) \$225,000 for single individuals, head-of household filers and fiduciaries; and (b) \$300,000 for married-joint filers; and (c) \$150,000 for married filing separate returns. The new bracket has a marginal tax rate of 7.75%. Previously, this income was taxed at a rate of 6.75%.

**Decrease in the capital gain exclusion.** Beginning in 2009, the individual income tax exclusion for long-term capital gains will be reduced from 60% to 30%, except for certain assets used in farming. The 60% exclusion is retained for gains on sales of farm livestock, farm real property, depreciable farm property and farm equipment.

**Deduction for certain employer subsidized health insurance premiums.** The bill has postponed the scheduled phase-in of the deduction for health insurance premiums paid by employees whose employer pays some portion of the employee's health insurance. For 2008, 10% of the insurance premiums paid were deductible. This percentage was to increase to 25% in 2009. The budget delays the increase in percentage and keeps it at 10% for 2009 and 2010.

**Deduction for certain health insurance premiums for individuals without an employer and who have no self employment income.** The bill has also postponed the scheduled phase-in of the deduction for health insurance premiums paid by individuals who do not have an employer or have any self-employment income. For 2008, 66.7% of the insurance premiums paid were deductible. This percentage was to increase to 100% in 2009. The budget delays the increase in percentage and keeps it at 66.7% for 2009 and 2010.

**Deduction for certain child and dependent care expenses delayed.** The bill delays the deductibility of certain child and dependent care expenses that was to occur in 2009 to tax year 2011. A tax deduction of \$750 for one qualifying child and \$1,500 for more than one qualifying child was to begin 2009, but will now begin in 2011.

**Domestic Production Activities Deduction eliminated.** The budget bill eliminates the manufacturing deduction effective in 2009. Previous to this bill, the federal Domestic Production Activities Deduction was fully deductible.

**Throwback sales for multistate businesses.** Throwback sales will be included at 100% in the sales apportionment formula for Wisconsin. Throwback sales are sales shipped out of Wisconsin to states without income tax jurisdiction over the company or sales shipped out of the state to the federal government. Formerly these sales were included at 50% of the total.

**Sales tax treatment of disregarded entities.** The new budget provides that a single owner entity that is considered a disregarded entity for income or franchise tax purposes must also be disregarded as a separate entity for sales and use tax purpose. This part of the budget affects companies that set up single member LLCs that are owned by the company in order to get certain sales tax exemptions. With the new regulations, the separate entity must file its own tax return to retain the sales tax exemption benefits.

**Itemized deduction credit for presidentially declared disaster areas.** The budget includes a provision that for 2009, taxpayers can take an itemized deduction credit on casualty losses as long as those losses are in an area of a presidentially declared disaster area. Prior to this budget, these deductions were not allowed.

**EdVest contributions for nondependent children.** Beginning in 2010, a parent can make a deductible contribution to EdVest of up to \$3,000 and receive a tax deduction. The budget expands the deduction to contributions made by the parent where the beneficiary is their child, but is not their dependent under federal income tax provisions. Formerly, the child had to be a dependent to receive a tax deduction.

**Non-resident withholding payments** – Beginning in 2009, the non-resident withholding payments for pass-through entities such as partnerships, LLCs, S-corporations, estates and trusts must be made on a quarterly basis.

Other items from the budget bill are the increased phone tax, nursing home bed tax, cigarette tax, garbage tax, hospital tax, surgical center tax, and film production tax credit repeal. Some non-tax items include in-state tuition for children of illegal immigrants, same sex partner benefits, mandatory auto insurance limits, qualified economic offer repeal, prevailing wage expansion and primary enforcement of seat belt laws.

If you would like more details about these or any other aspects of the new law, please do not hesitate to call or visit us at [www.habco.com](http://www.habco.com).

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