

THE Wisconsin Accountant

2010 Seminars

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Effect of the Subtraction For Medical Care Insurance On The Itemized Deduction Credit

Submitted by Wisconsin Department of Revenue

Subject to certain limitations, Wisconsin law allows a subtraction when computing Wisconsin taxable income for the amount paid for medical care insurance.

Wisconsin law also allows an itemized deduction credit. This credit is equal to 5% of the amount by which certain federal itemized deductions exceed the Wisconsin standard deduction. The federal itemized deduction for medical expenses is one of the deductions used in the computation of the Wisconsin itemized deduction credit.

In order to avoid a double benefit, the amounts claimed for the Wisconsin subtraction for medical care insurance cannot be used in the computation of the itemized deduction credit. Because the federal itemized deduction for medical expenses must be reduced by 7.5% of the taxpayer's federal adjusted gross income (AGI), there is a question as to how to determine the portion of the medical expense deduction that can be used for the Wisconsin itemized deduction credit when a person deducts both medical care insurance and other medical expenses.

Four steps are needed to figure the amount of medical expenses that can be used when computing the Wisconsin itemized deduction credit.

Step 1 Use the following formula to allocate the federal Schedule A deduction.

<i>Amount paid for medical care insurance</i>		<i>Medical deduction after reduction</i>		<i>Portion of medical expense deduction due to medical care insurance</i>
<i>Total medical expenses before 7.5% of</i>	X	<i>for 7.5% of</i>	=	

Step 2 Subtract the amount determined in Step 1 from the medical expense deduction after reduction for 7.5% of federal AGI. This is the portion of the federal itemized deduction for medical expenses that is due to medical expenses other than medical care insurance.

Step 3 Subtract the amount of your Wisconsin subtraction for medical care insurance from the amount determined in Step 1. The remaining amount, if any, can be used for the credit.

Step 4 Add the amounts determined in Steps 2 and 3. This is the amount of the federal itemized deduction for medical expenses that can be used when computing the Wisconsin itemized deduction credit.

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IRS Proposes New Registration, Effect of the Subtraction For Medical Care Insurance On The Itemized Deduction Credit

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Example:

Your itemized deductions for medical expenses on federal Schedule A are as follows:

Medical care insurance	\$10,000
Other medical expenses	4,000
Total medical expenses	14,000
Less 7.5% of federal AGI	3,000
Allowable deduction	\$11,000

Your Wisconsin subtraction for medical care insurance is \$6,667.

You may use \$4,333 as medical expenses when computing the Wisconsin itemized deduction credit determined as follows:

Step 1	$\$10,000 \times \frac{\$11,000}{\$14,000} = \$7,857$	(portion of the federal itemized deduction for medical expenses due to medical care insurance)
Step 2	$\$11,000 - \$7,857 = \$3,143$	(portion of the federal itemized deduction for medical expenses due to other than medical care insurance)
Step 3	$\$7,857 - \$6,667 = \$1,190$	(amount of the federal itemized deduction for medical care insurance that can be used for the itemized deduction credit)
Step 4	$\$3,143 + \$1,190 = \$4,333$	(amount of the federal itemized deduction for medical expenses that can be used when computing the Wisconsin itemized deduction credit)

(Note For additional examples, see page 29 of the July 2002 Wisconsin Tax Bulletin 130.)

Tax Credit Bonds

Submitted by Wisconsin Department of Revenue

The American Recovery and Reinvestment Tax Act of 2009 authorized the issuance of a new type of tax credit bond called the "qualified school construction bond (QSCB)." These bonds provide a federal subsidy to assist state and local governments in financing expenses of public school construction, rehabilitation, and repairs. The QSCBs are issued by a state or local government within the jurisdiction of which the school is located.

Federal treatment

A taxpayer holding a tax credit bond is allowed a credit against federal income tax equivalent to the interest that the bond would otherwise pay. The bondholder must include the amount of the credit in federal gross income and treat it as interest income.

Wisconsin treatment

Is the amount that is taxable for federal purposes as interest income also taxable for Wisconsin?

Yes. Wisconsin law provides for the taxation of interest from state and local bonds. QSCBs are issued by state and local governments and are therefore taxable to Wisconsin.

WAA Benefits

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WAA Objectives

- To raise professional standards and improve the practice of accountancy.
- To strive for excellence in the profession.
- To encourage accountants in a continuing program of professional development.
- To foster increased recognition for the professional in the public, private and educational sectors of our state.
- To initiate legislative action and provide government liaison between the accounting profession and government leaders.
- To provide meetings and fellowship for accountants.
- To promote the highest standard of ethical conduct among its member.

Did I Receive a 2009 Economic Recovery Payment?

Submitted by IRS

The IRS developed the Did I Receive an Economic Recovery Payment? look up tool which gives taxpayers an easy way to determine if they received the one-time ERP payment and which agency made the payment.

Beginning March 8, 2010, taxpayers can call 866-234-2942 to access the phone application. The Web application will be available in late March on IRS.gov.

Taxpayers who had earned income in 2009 or are government retirees and received an Economic Recovery Payment need to report whether or not they received an ERP and the amount when they prepare their Schedule M, Making Work Pay and Government Retiree Credits.

The one time \$250 ERP was paid to individuals in the following categories:

- Retirees, disabled individuals and Supplemental Security Income (SSI) recipients receiving benefits from the Social Security Administration,
- Disabled veterans receiving benefits from the U.S. Department of Veterans Affairs, and
- Railroad Retirement beneficiaries.

Using the IRS look up tool taxpayers will have to enter three pieces of information to determine if they received an ERP:

- SSN
- Date of birth
- Zip code from last filed return

A separate telephone call or Web inquiry must be made for each taxpayer, even if filing a joint tax return.

IRS Announces Qualified Disaster Treatment for Chile

Submitted by IRS

Washington The Internal Revenue Service today issued guidance designating the earthquake that occurred in Chile in February 2010 as a qualified disaster for federal tax purposes. The guidance allows individuals who receive qualified disaster relief payments from any person to exclude those payments from income on their tax returns. Also, the guidance allows employer-sponsored private foundations to assist employee-victims in areas affected by this earthquake without affecting their tax-exempt status.

Qualified disaster relief payments include amounts to cover necessary personal, family, living or funeral expenses that were not covered by insurance. They also include expenses to repair or rehabilitate personal residences or repair or replace the contents to the extent that they were not covered by insurance. Again, these payments would not be included in the individual recipient's gross income.

Qualified disasters include Presidentially declared disasters and any other event that the Secretary of the Treasury determines to be of a catastrophic nature. The IRS has determined that the earthquake that occurred in Chile in February 2010 is an event of a catastrophic nature for purposes of the federal tax law.

The IRS will presume that disaster relief that a private foundation provides to employee-victims and their family members in areas affected by the earthquake in Chile are consistent with the foundation's charitable purposes.

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Quarterly Interest Rates Remain the Same for 2nd Quarter 2010

Submitted by David & Mary Mellem

IRS has announced the interest rates for the 2nd quarter of 2010. The rates remain the same at:

- 4% for most overpayments (3% for corporation overpayments)
- 4% for underpayments
- 6% for large corporate underpayments
- 1.5% for corporate overpayments exceeding \$10,000

These rates become effective April 1, 2010 (start of the 2nd quarter) and continue through June 30, 2010.

Revenue Ruling 2010-09

From the President . . .



**Bill Suttner,
President**

With just a couple of big deadlines ahead of us, try to remain positive and enthusiastic. Look for opportunities to further service your clients and the possibilities to generate additional fees in the off season. Remember to rely on members of the Association for assistance with challenges outside your comfort zone. Enjoy the tax season and be thankful you are working when many others are not.

Bill Suttner, CPA
WAA President

Quote of the Month

The man who really wants to do something finds a way, the other finds an excuse



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