

Wisconsin Tax Law Changes Affecting 2011 Tax Returns

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The state of Wisconsin has adopted some significant changes that will affect individuals and businesses filing 2011 Wisconsin tax returns. The good news is that nearly all changes result in lower taxes for individuals and businesses, including the following:

- Wisconsin now has a child and dependent care deduction of up to \$1,500
- Wisconsin now allows deductions and tax benefits for Health Savings Accounts (HSAs)
- Health insurance for dependents under age 27 is no longer taxable in Wisconsin
- The new Relocated Business Credit or Deduction offers a deduction or credit for businesses that relocate jobs to Wisconsin from other states or countries
- Businesses that added Wisconsin jobs in 2011 will benefit from a Job Creation Deduction.



Child and Dependent Care Expenses

In recent years, Wisconsin laws have been passed to provide a deduction for dependent care expenses. First passed in 2007, the implementation has been delayed for a variety of reasons. Finally, in 2011, Wisconsin residents will be able to [subtract up to \\$1,500](#) in child and dependent care expenses from their Wisconsin income. The amount of qualifying expenses will be determined based on the same criteria as the federal Child and Dependent Care Credit reported on federal [Form 2441](#). For 2011, the subtraction is limited to \$750 for one qualifying child and \$1,500 for two or more children. The amounts will increase gradually in future years until reaching limits of \$3,000 (one child) and \$6,000 (more than one child) in 2014.

Health Savings Accounts

Since they were created in 2003, Health Savings Accounts (HSAs) have offered significant *federal* tax advantages. Contributions by employers were not taxed as wages, contributions by employees were tax deductions, and the earnings were not taxed. However, Wisconsin had been one of a few states that did not adopt the tax advantages of HSAs. While HSA participants in Wisconsin received the federal benefits of HSAs, they made adjustments to their state returns to add back the contributions that had been deducted and to include interest that had been omitted on the federal return. Effective January 1, 2011, [Wisconsin Act 1](#) makes the Wisconsin treatment of HSAs mirror the federal treatment. Wisconsin will not tax employer contributions as wages, will allow a deduction for HSA contributions, and will not tax earnings in HSA accounts.

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Young Adult Health Insurance Expenses

In early 2010, the federal government required employers' health insurance to extend to dependents up to age 27 and indicated that the value of the insurance was not taxable. This conflicted with existing Wisconsin law, which already required the coverage but indicated that it was taxable. Lawmakers cleared up the conflict in November by [passing legislation](#) to declare that the value of insurance after January 1, 2011 was not taxable.

Relocated Business Credit and Deduction

In an effort to attract businesses to the state, Wisconsin created a [Relocated Business Credit or Deduction](#) in 2011. Corporations and tax exempt organizations benefit from a credit directly reducing their tax burden, while individuals, LLCs, partnerships, estates, and trusts receive the benefit passing through as a deduction from federal income. Employers who relocate more than half of their workforce payroll or more than \$200,000 in wages to Wisconsin can take the credit/deduction. The amount of the tax benefit is the net profit attributable to the business after relocation to Wisconsin, without limits. The credit/deduction is calculated on [Schedule RB](#). While the credit/deduction is not available to anyone who did business in Wisconsin in the previous two years, many employers new to Wisconsin are expected to be eligible.

Job Creation Deduction

Both new and existing Wisconsin businesses can benefit from the [Job Creation Deduction](#). The employer merely needs to increase the number of full-time equivalent (FTE) employees employed in Wisconsin during the year. The deduction allows businesses to subtract up to \$2,000 (if company gross receipts are less than \$5 million) or \$4,000 (if receipts are greater than \$5 million) **per eligible employee** from federal income. The calculation is relatively simple and will benefit businesses growing in Wisconsin. The credit will be claimed on [Schedule JC](#). Unfortunately, businesses cannot claim both the Relocated Business Credit and Job Creation credit in the same year.



State laws are constantly changing, so contact us for the most up-to-date information and with any questions on how federal and state tax laws affect you.

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