

**WISCONSIN DEPARTMENT OF REVENUE  
DIVISION OF INCOME, SALES, AND EXCISE TAX**

**NOTICE OF PROPOSED GUIDANCE DOCUMENTS**

Pursuant to sec. 227.112, Wis. Stats., the Wisconsin Department of Revenue, Division of Income, Sales, and Excise Taxes hereby seeks comment on the proposed guidance document listed in the table below.

**SUBMITTING PUBLIC COMMENTS**

Public comments on proposed or adopted guidance documents may be submitted online at: <https://www.revenue.wi.gov/Pages/contactUs/proposed-Guidance.aspx>.

**DEADLINE FOR SUBMISSION**

The period for public comment for proposed guidance documents ends 21 days after publication in the Administrative Register, unless the Governor approves a shorter commenting period.

<b>Document Number</b>	<b>Document Title</b>
<b>100159</b>	Manufacturing and Agriculture Credit - Credit Computation - Common Questions

State of Wisconsin  
Department of Revenue

## Manufacturing and Agriculture Credit - C. Credit Computation

**This is a proposed guidance document. The document has been submitted to the Legislative Reference Bureau for publication in the Administrative Register for public comment as provided by sec. 227.112(1), Wis. Stats.**

1. How is the credit computed?
2. How is the qualified production activities income limited for corporations?
3. How is the credit limited for non-corporate claimants?
4. In determining the amounts on Lines 1, 7 and 8, do we use the gross receipts determined under federal law?
5. Line 8 of Schedule MA-A and MA-M requires the inclusion of all gross receipts. What does the term all gross receipts mean?
6. When a sole proprietor pays his/her spouse wages, the wage expense reduces the amount of the credit. Can the sole proprietor use the credit to offset income tax resulting from the spouse's wage income since the wages were income from the business operations?

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### 1. **How is the credit computed?**

If a claimant is eligible for the credit based on both manufacturing and agricultural activities, the credit must be computed separately for each activity.

The credit is computed as follows:

Production Gross receipts<sup>1</sup>

Less: Cost of goods sold<sup>2</sup>

Less: Direct Costs<sup>3</sup>

Less: Indirect Cost<sup>4</sup> multiplied by production gross receipts factor<sup>5</sup>

= Qualified production activities income<sup>6</sup>

Multiplied by manufacturing property factor<sup>7</sup> or agriculture property factor<sup>8</sup>

= Eligible qualified production activities income<sup>9</sup>

Multiplied by credit rate in effect for the taxable year<sup>10</sup>

= Total credit

1. Production gross receipts are the receipts from the lease, rental, license, sale, exchange, or other disposition of qualified production property. Footnote<sup>7</sup> and footnote<sup>8</sup> describe what is qualified production property.
2. Cost of goods sold are the production costs associated with the production gross receipts.
3. Direct costs are the costs associated with the production gross receipts and include all the claimant's ordinary and necessary expenses paid or incurred during the taxable year to carry on a trade or business that are deductible as business expenses under the Internal Revenue Code and identified as direct costs in the claimant's managerial or cost accounting records.
4. Indirect costs include all the claimant's ordinary and necessary expenses paid or incurred during the taxable year to carry on a trade or business that are deductible as business expenses under the Internal Revenue Code, other than cost of goods sold and direct costs, and identified as indirect costs in the claimant's managerial or cost accounting records.
5. The production gross receipts factor is a fraction consisting of the production gross receipts (numerator) divided by the gross income from all sources except those specifically excluded under the Internal Revenue Code or excluded under Wisconsin law (denominator). Items included in the denominator include: gross sales, gross dividends, gross interest income, gross rents, gross royalties, the gross sales price from the disposition of capital and business assets, gross income from pass-through entities, and all other gross receipts that are included in income before apportionment.
6. Qualified production activities income is the amount of the claimant's production gross receipts for the taxable year that exceeds the sum of the cost of goods sold that are allocable to the receipts, the direct costs allocable to the receipts, and the indirect costs, with the result multiplied by the production gross receipts factor.

Qualified production activities income does not include any of the following:

1. Income from film production
  2. Income from producing, transmitting, or distributing electricity, natural gas, or potable water
  3. Income from constructing real property
  4. Income from engineering or architectural services performed with respect to constructing real property
  5. Income from the sale of food and beverages prepared by the claimant at a retail establishment
  6. Income from the lease, rental, license, sale, exchange, or other disposition of land
7. The manufacturing property factor is the average value of the claimant's real and personal property assessed under s. 70.995, Wis. Stats., that is owned or rented and used in Wisconsin by the claimant to manufacture qualified production property (numerator), divided by the average value of all the claimant's real and personal property owned or rented during the taxable year and used by the claimant to manufacture qualified production property (denominator).

Qualified production property is tangible personal property manufactured in whole or in part by the claimant on property that is assessed as manufacturing property under s. 70.995, Wis. Stats.

The property owned by the claimant is valued at its original cost and property rented by

the claimant is valued at an amount equal to the annual rent paid by the claimant, less any annual rental received by the claimant for sub-rentals, multiplied by 8.

The average value of the property is determined by averaging the values at the beginning and ending of the taxable year.

8. The agriculture property factor is the average value of the claimant's real property and improvements assessed under s. 70.32(2)(a)4., Wis. Stats., that is owned or rented and used in Wisconsin by the claimant during the taxable year to produce, grow, or extract qualified production property (numerator) divided by the average value of all the claimant's real property and improvements owned or rented during the taxable year and used by the claimant to produce, grow, or extract qualified production property (denominator).

Qualified production property is tangible personal property produced, grown, or extracted in whole or in part by the claimant on or from property assessed as agricultural property under s. 70.32(2)(a)4., Wis. Stats.

The property owned by the claimant is valued at its original cost and property rented by the claimant is valued at an amount equal to the annual rental paid by the claimant, less any annual rental received by the claimant from sub-rentals, multiplied by 8.

The average value of the property is determined by averaging the values at the beginning and ending of the taxable year.

9. ■ The amount of the eligible qualified production activities income that a corporate claimant may claim in computing the credit is the lesser of the following:
- a. The eligible qualified production activities income determined using the computation above
  - b. Income apportioned to this state under s. 71.25(5), (6), and (6m), or
  - c. Income determined to be taxable under s. 71.255(2).
- For non-corporate claimants, the credit computed and any credits carried over from prior taxable years may only offset the tax imposed upon the business operations that were used to compute the credit.
  - For shareholders of a tax-option (S) corporation, the credit may only offset the tax imposed on the shareholder's prorated share of the tax-option (S) corporation's income.
  - For partners of a partnership, the credit may only offset the tax imposed on the partner's distributive share of partnership income.
10. The manufacturing and agriculture credit rate is as follows:
- 1.875% for taxable years beginning on or after January 1, 2013 and before January 1, 2014.
  - 3.75% for taxable years beginning on or after January 1, 2014 and before January 1, 2015.
  - 5.025% for taxable years beginning on or after January 1, 2015 and before January 1, 2016.
  - 7.5% for taxable years beginning on or after January 1, 2016.

## 2. How is the qualified production activities income limited for corporations?

For a corporation, the eligible qualified production activities income is the lesser of:

- Eligible qualified production activities income,
- Income apportioned to Wisconsin, or
- Income taxable to Wisconsin as determined by Wisconsin's combined reporting law, if the corporation is a member of a Wisconsin combined group

### 3. **How is the credit limited for non-corporate claimants?**

For non-corporate claimants, the credit is limited as follows:

- For non-corporate claimants, the credit computed and any credits carried over from prior taxable years may only offset the tax imposed upon the business operations that were used to compute the credit.
- For shareholders of a tax–option (S) corporation, the credit may only offset the tax imposed on the shareholder's prorated share of the tax–option (S) corporation's income.
- For partners of a partnership, the credit may only offset the tax imposed on the partner's distributive share of partnership income.

### 4. **In determining the amounts on Lines 1, 7 and 8, do we use the gross receipts determined under federal law?**

The gross receipts are based on the IRC in effect for Wisconsin.

### 5. **Line 8 of Schedule MA-A and MA-M requires the inclusion of all gross receipts. What does the term all gross receipts mean?**

Gross receipts means all gross income of the business from whatever source, except for those items specifically excluded under the Internal Revenue Code as adopted by Wisconsin and otherwise excluded under Wisconsin law. This includes gross sales, gross dividends, gross interest income, gross rents, gross royalties, the gross sales price from the disposition of capital assets and business assets, gross income from pass-through entities, and all other gross receipts that are included in income, before apportionment.

**Note:** For *individuals*, do not include gross receipts or income from sources not related to the business. For example, do not include your spouse's wages earned from an employer, and do not include rental income from an apartment building reported on Schedule E.

### 6. **When a sole proprietor pays his/her spouse wages, the wage expense reduces the amount of the credit. Can the sole proprietor use the credit to offset income tax resulting from the spouse's wage income since the wages were income from the business operations?**

No. The wages are not income from business operations. They are an expense as the result of the business operations. If the wages are not included in the gross receipts from the business, they are not income from business operations.

## Applicable Laws and Rules

This document provides statements or interpretations of the following laws and regulations in effect as of December 17, 2019: Sections 70.995, 71.07(5n) and 71.28(5n), Wis. Stats.

Laws enacted and in effect after December 17, 2019, new administrative rules, and court decisions may change the interpretations in this document. Guidance issued prior to December 17, 2019, that is contrary to the information in this document is superseded by this document, pursuant to sec. 73.16(2)(a), Wis. Stats.

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Guidance Document Certification: <https://www.revenue.wi.gov/Pages/Certification-Statement.aspx>

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## Related Links

### Manufacturing and Agriculture Credits

- [General Questions](#)
- [Schedule MA Questions](#)
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When Credit  
for Tax Paid  
to Other  
State is  
Claimed

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