

DEFERRAL AND EXCLUSION OF LONG-TERM CAPITAL GAINS FOR INVESTMENTS IN WISCONSIN BUSINESSES ON AND AFTER JANUARY 1, 2014

Fact Sheet 1102-2

revenue.wi.gov

I. DEFERRAL OF GAIN

Section 71.05(26), Wis. Stats., provides a deferral of tax on long-term capital gain that is realized from the sale of assets and reinvested in a "qualified Wisconsin business."

The deferral is only available to individuals, including individual partners or members of a partnership, limited liability company, or limited liability partnership, and individual shareholders of a tax-option corporation.

Certain conditions must be met in order to qualify for the deferral of gain:

- The individual must incur a gain on the sale of a capital asset that is treated as a long-term gain under the Internal Revenue Code.
- Within 180 days after the sale of the asset that generated the gain, all of the gain must be invested in a "qualified Wisconsin business."
- After making the investment, the individual must use Wisconsin Schedule CG to notify the Department of Revenue that he/she will not declare the gain because it has been reinvested. Schedule CG must be attached to the individual's Wisconsin income tax return for the year of the claim.

The Wisconsin basis of the investment must be reduced by the amount of deferred gain. Thus, the deferred gain will be taxable for Wisconsin when the investment is later sold.

II. EXCLUSION OF LONG-TERM CAPITAL GAIN

For taxable years that begin on or after January 1, 2016, Wisconsin law (sec. 71.05(25), Wis. Stats.) provides for a capital gain exclusion when an investment is held for at least five years in a "qualified Wisconsin business."

The exclusion is only available to individuals, including individual partners or members of a partnership, limited liability company, or limited liability partnership, and individual shareholders of a tax-option corporation.

The following requirements must be met to qualify for the exclusion:

- An investment in a "qualified Wisconsin business" must be purchased after December 31, 2010, and held for at least five uninterrupted years.
- The business invested in must be a "qualified Wisconsin business" for the year purchased and at least two of the following four years.
- The individual must incur a gain on the sale of the investment that is treated as a long-term capital gain under the Internal Revenue Code.

The amount of gain that may be excluded is the amount of gain from the sale of the investment less any gain that was deferred for Wisconsin as described in Part I.

III. "QUALIFIED WISCONSIN BUSINESS"

Beginning January 1, 2014, a "qualified Wisconsin business" is a business registered with the DOR. For 2011, 2012, and 2013, a "qualified Wisconsin business" is a business certified by the Wisconsin Economic Development Corporation.

A business must register with the DOR in each calendar year for which it desires registration. A business may register if, in the business's taxable year ending immediately before the date of registration:

- The business has at least two full-time employees and the amount of payroll compensation paid by the business in Wisconsin is equal to at least 50 percent of the amount of all payroll compensation paid by the business, and

- The value of real and tangible personal property owned or rented and used by the business in Wisconsin is equal to at least 50 percent of the value of all real and tangible personal property owned or rented and used by the business.

A business must register using the DOR's online application, which is available at revenue.wi.gov/businesses/qualified/index.html.

IV. ADDITIONAL INFORMATION

For further information, visit the department's [web page](#) for qualified Wisconsin businesses, contact any [Department of Revenue office](#) or our Customer Service Bureau at (608) 266-2486, or email your questions to income@revenue.wi.gov.

Last Updated: September 8, 2014