**Homestead Credit Disqualified Loss Information Sheet**

Act 59 included a homestead credit law change that goes into effect with the 2018 returns. The taxpayer must now add back the disqualified losses that are included in their Wisconsin income.

“Disqualified loss” means the sum of the following amounts, exclusive of net gains from the sale or exchange of capital or business assets and exclusive of net profits:

(a) Net loss from sole proprietorships

(b) Net capital loss

(c) Net loss from sales of business property, excluding loss from involuntary conversions

(d) Net loss from rental real estate, royalties, partnerships, tax−option S corporations, trusts, estates, and real estate mortgage investment conduits

(e) Net farm loss

There is one exception. A claimant does not have to add back disqualified losses (of any kind) if all of the following are true for the year:

* The claimant is a farmer
* The claimant's primary income is from farming
* The claimant's farming operations generate less than $250,000 in gross receipts

A claimant's primary income is from farming if they have more net positive income from farming than from all other sources combined.

**New line and new Schedule**

There is a new line on Schedule H – line 11j, and a new Schedule – Schedule 4. The total from Schedule 4 should be carried to line 11j.

Schedule 4 should include losses from the categories listed above. If the taxpayer has multiple activities from a category, the activities should not be netted to determine the loss to enter on Schedule 4.

For example: If the taxpayer has two Schedules C, Schedule C-1 resulting in net income and Schedule C-2 resulting in a net loss, enter the loss from the Schedule C-2 on line 2 of Schedule 4. Do not net it with the income from Schedule C-1 to determine the disqualified loss. Similarly, if the taxpayer has multiple rental properties or capital gain transactions, each property/transaction is evaluated individually. Those resulting in losses (and included in Wisconsin income) should be entered on Schedule 4. Those resulting in income/gain are not included in the computation of the disqualified loss.

The depreciation, Section 179 expense, depletion, amortization and intangible drilling costs that are included in the losses entered on Schedule 4 should be entered on line 12 of the schedule. They will be deducted in calculating the disqualified loss that is carried to line 11j. Those expenses will continue to be included on lines 11g, 11h and 11i, as in the past.