



## Fiscal Estimate Narratives

DOR 6/7/01

LRB Number	01-2902/2	Introduction Number	SB-164	Estimate Type	Updated
<b>Subject</b>					
Creating an artistic endowment foundation					

### Assumptions Used in Arriving at Fiscal Estimate

This bill creates the Wisconsin Artistic Endowment Foundation and an Artistic Endowment Fund for the purpose of supporting arts programs throughout the state. The Artistic Endowment Fund is created as a non-profit entity, so income of the fund is exempt from tax under the bill. Because this fund would be exempt from taxes under current law, this exemption has no fiscal effect.

The bill also creates a nonrefundable individual income and franchise tax credit for amounts contributed to the new Artistic Endowment Fund. The maximum credit is \$100 for married joint filers and \$50 for other filers. The maximum credit for sole proprietorships, corporations, partnerships, limited liability companies (LLCs) and S-corporations is \$500. Partnerships, LLCs and S-corporations compute the credit and pass it on to partners, members and shareholders in proportion to their ownership interest. No credits are allowed after revenues received by the endowment fund reach \$50,150,000. In addition, the bill limits the credits that may be claimed in any year to \$7,000,000, but this restriction does not take effect until tax year 2004.

Because claimants may both deduct contributions from income at the federal level and claim a credit against state tax liability for the full amount of the same contribution, the tax reduction could exceed the amount of the contribution. Therefore, it is assumed that participation by individuals and corporations will be high. In particular, because the tax benefit could exceed the amount of the contribution, arts groups benefiting from the Artistic Endowment Fund can be expected to heavily promote contributions and tax preparers will encourage their clients, especially their business clients, to claim the credit. Contributions to the fund are expected to exceed the \$50,150,000 ceiling the first year, so the credit will be in effect for one year only. Further, the \$7,000,000 limit, since it does not take effect until 2004, is not expected to have any impact. This fiscal estimate first examines the revenue loss for credits for individuals who are not eligible to claim the credit for business entities, then the loss for credits due to sole proprietorships, partnerships, LLCs that file as partnerships, S-corporations, and finally, the loss for credits to corporations.

The bill would also exempt sales of admissions to artistic events sponsored by tax-exempt, not-for-profit organizations. The fiscal effect of this exemption on state and local revenues is discussed after the income tax exemption.

#### Individual Income Tax Effect

1. Based on information from the American Association of Fundraising Counsel (AAFRC), it is estimated that 5.7% of Americans currently made charitable contributions to artistic and cultural organizations in 2000. Thus, it is assumed that 5.7% of the state's taxpayers, excluding those who would receive a credit as an owner of a sole proprietorship, partnership, LLC or S-corporation, would be eligible to claim the proposed credit for individuals. According to a simulation on the 1999 Wisconsin Individual Income Tax Model, the credit would reduce individual income tax revenues by \$8.4 million in the first year.

Other sources indicate a higher percentage of Americans contribute to artistic and cultural organizations, in particular, an estimate of 11.4%, by the Gallup Organization. If 11.4% of taxpayers contribute to the Artistic Endowment Fund, the revenue loss would be \$16.8 million.

2. Limited data are available to estimate the fiscal effect of the tax credit available to partnerships, LLCs and S-corporations. Based on Department data, it is estimated that there are 20,000 active partnerships and 40,000 LLCs filing as partnerships and S-corporations in the state. The number of partners, members and shareholders that would claim the credit is not known. Assuming that partners, members and shareholders of half of these entities would claim the credit in a given year, the fiscal effect would be to reduce individual income tax revenues by \$15 million (60,000 x \$500 x 0.5). If all partners, members and shareholders claimed the credit, the estimated fiscal effect would be \$30 million annually.

3. Similarly, the number of sole proprietors that would claim the credit is unknown. Based on information from the Individual Income Tax Sample, if 50% of sole proprietorships, not including farming operations, claimed the \$500 credit, up to their tax liability, the fiscal effect would be to reduce individual income tax revenues by \$48 million. If all sole proprietors claimed the credit, the fiscal effect would be \$96 million.

#### Corporate Income Tax Effect

The number of corporations that would claim the credit is unknown, but it is expected to be high because corporations would be encouraged to reap the tax benefits of the contribution by their professional tax advisers. Based on simulations on the Corporate Tax Samples, if all corporations with tax liability claimed the \$500 credit, up to their tax liability, the fiscal effect would be \$10 million.

#### Total Income Tax Effect

This bill would reduce individual income and corporate income and franchise revenues by at least \$81.4 million and by as much as \$144.4 million. Because the bill states that the credit ceases for the tax year after which the fund reaches \$50.15 million, there would be no fiscal effect in subsequent years.

#### Sales Tax Effect

The bill would also exempt sales of admissions to artistic events sponsored by tax-exempt, not-for-profit organizations, effective January 1, 2002. This fiscal estimate assumes that the exemption would be limited to admissions to performances by exempt musical, theatrical, dance and similar groups and to musical, theatrical, dance and similar performances by any individual or group, including music and similar festivals, that are sponsored by tax-exempt organizations. However, because the bill does not define the term "artistic," it could be broadly interpreted to include events in addition to those identified above. The term "sponsored" could also be broadly interpreted, for example, extending the exemption to sales of admissions to a performance by a for-profit entity that secures endorsement or other sponsorship for that performance by an exempt entity. These broader interpretations could substantially increase the revenue effect of this bill.

Limited data on ticket sales by tax-exempt artistic performers and tax-exempt promoters of artistic performances are available. Based on state sales tax records, data on tickets sales by the largest Milwaukee area arts groups published in the Milwaukee newspaper, The Business Journal, and data from the 1997 Economic Census published by the U.S. Bureau of the Census, it is estimated that sales of admissions by exempt performers statewide in the final six months of FY02, when the exemption is first in effect, would be \$22 million and sales in FY03, the first full year of the exemption, would be \$46 million. Based on data from state sales tax records, sales by tax-exempt promoters to artistic performances are estimated to be \$55 million in the final six months of FY02 and \$130 million in FY03.

Thus, total admission sales qualifying for the proposed exemption are estimated to be \$77 million (\$22 million in sales by exempt performers + \$55 million in sales by exempt promoters) in FY02 and \$176 million (\$46 million + \$130 million) in FY03. Applying the 5% state sales tax rate to these admissions yields a revenue loss of \$3.85 million in FY02 and \$8.8 million in FY03.

The majority of these sales would occur in Milwaukee County, where the local sales tax rate (county plus stadium) is 0.6%; many other sales would also occur in counties with local taxes ranging from 0.1% to 0.6%. Therefore, it is assumed that the average local sales tax on these admissions would be about 0.45%, and the local revenue loss would be approximately \$350,000 in FY02 and \$800,000 in FY03.

#### Administrative Costs

The Department would incur one-time administrative costs of \$312,000 in FY02 and \$427,300 in FY03 for programming, data entry, correspondence, audit review, and supporting expenses. The bill does not provide funding for these costs.

#### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 01-2902/2	<b>Introduction Number</b> SB-164	
<b>Subject</b>		
Creating an artistic endowment foundation		
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>		
+\$312,000 GPR-Exp in FY02 and +\$427,300 GPR-Exp in FY03; -\$85.25 million to -\$148.25 million GPR taxes in FY02; -\$350,000 local government taxes in FY02.		
<b>II. Annualized Costs:</b>	<b>Annualized Fiscal Impact on funds from:</b>	
	Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>		
State Operations - Salaries and Fringes	\$	
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$-8,800,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$-8,800,000</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>		
	State	Local
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$-8,800,000	\$-800,000
<b>Agency/Prepared By</b>		
DOR/ Meredith Krejny (608) 261-8984		
<b>Authorized Signature</b>		<b>Date</b>
Dennis Collier (608) 266-5773		6/6/01