

Fiscal Estimate - 2007 Session

Original
 Updated
 Corrected
 Supplemental

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|------------------------------------|---|
| LRB Number 07-1849/2 | Introduction Number AB-0369 |
|------------------------------------|---|

Description
 Income and franchise tax credits for insulating concrete forms used to construct a building and energy efficient products

Fiscal Effect

State:

| | | |
|---|--|--|
| <input type="checkbox"/> No State Fiscal Effect | <input type="checkbox"/> Increase Existing Revenues | <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> Indeterminate | <input checked="" type="checkbox"/> Decrease Existing Revenues | |
| <input type="checkbox"/> Increase Existing Appropriations | | <input type="checkbox"/> Decrease Costs |
| <input type="checkbox"/> Decrease Existing Appropriations | | |
| <input type="checkbox"/> Create New Appropriations | | |

Local:

| | | |
|--|--|--|
| <input checked="" type="checkbox"/> No Local Government Costs | | |
| <input type="checkbox"/> Indeterminate | | |
| 1. <input type="checkbox"/> Increase Costs | 3. <input type="checkbox"/> Increase Revenue | 5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts |
| <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | |
| 2. <input type="checkbox"/> Decrease Costs | 4. <input type="checkbox"/> Decrease Revenue | |
| <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | |

| | |
|---|---------------------------------------|
| Fund Sources Affected | Affected Ch. 20 Appropriations |
| <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS | |

| | | |
|--|---|-------------------------|
| Agency/Prepared By DOR/ Michael Oakleaf (608) 261-5173 | Authorized Signature Rebecca Boldt (608) 266-6785 | Date 5/8/2007 |
|--|---|-------------------------|

Fiscal Estimate Narratives

DOR 5/30/2007

| | | | | | |
|---|------------------|---------------------|----------------|---------------|-----------------|
| LRB Number | 07-1849/2 | Introduction Number | AB-0369 | Estimate Type | Original |
| Description Income and franchise tax credits for insulating concrete forms used to construct a building and energy efficient products | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

This bill creates an income and franchise tax credit equal to the amount that the taxpayer pays in the taxable year to purchase for use in this state or manufacture in this state 1) insulating concrete forms used to construct a building, and 2) any item of tangible personal property that is governed by and satisfies certain energy standards. Manufacturing costs incurred in Wisconsin would be eligible for credit whether the forms are sold within or outside of Wisconsin.

The energy standards to be met under provision 2) above are:

- a) The 2001 supplement to the 2000 International Energy Conservation Code;
- b) The 2004 supplement to the 2003 International Energy Conservation Code; and
- c) The 2007 energy efficiency guidelines established by the federal environmental protection agency and the federal department of energy under the Energy Star program.

Unused credit may be carried forward and used for up to 15 years.

Fiscal Effect

The fiscal effect of the bill in its entirety cannot be estimated. However, some provisions of the bill can be estimated, and the revenue loss that would result from those provisions is estimated to be at least \$142.5 million per year (see detail below). The revenue loss from the provisions of the bill that cannot be estimated could potentially be as large or larger than those that can be estimated.

Insulating Concrete Forms -- Based on information from the Insulated Concrete Form Association, sales of insulating concrete forms in Wisconsin equals approximately \$6 million annually. The department estimates that approximately 75% of credits claimed in a year by corporations (which are assumed to be the primary claimant under this provision) are used to offset tax liability in that year. As such the credit would reduce tax revenues by an estimated \$4.5 million annually (\$6 million x 75%). This amount reflects the purchase price for sales in Wisconsin only. To the extent that the estimate does not include the cost to manufacture forms which would also be eligible for a credit, nor does it include a factor for any increase in the sales or manufacture of insulating concrete forms that would likely result from the incentive created by the credit, the fiscal effect would likely be significantly higher.

International Energy Conservation Code -- Data does not exist to estimate this provision. According to the Wisconsin Department of Commerce, the International Energy Conservation Code(IECC) is not typically used to rate individual products used in construction. Instead, whole buildings or systems within a building are built to meet the IECC standards.

Energy Star -- Based on a national forecast of the Association of Home Appliance Manufacturers of units sold of room air conditioners, dehumidifiers, refrigerators, freezers, and clothes washers, and prices of such items, total Wisconsin sales of these products were estimated. The attachment shows forecasts of units sold for 2007. Based on data from the Wisconsin Department of Administration, 42% of clothes washers sold in this state were Energy Star qualified, and it is assumed that 25% of the other products used in the estimate would be Energy Star qualified.

Based on these data and assumptions, the fiscal effect of this provision would be a reduction in revenue of at least \$138 million per year. To the extent that the estimate includes only a portion of the approximately 50 product types rated under the Energy Star program, and does not include any of the costs for manufacturing Energy Star qualified products, nor does it include a factor for any increase in the sales or manufacture of Energy Star products that would likely result from the incentive created by the credit, the fiscal effect is likely significantly higher.

Based on the above, the revenue loss that would result from those provisions is estimated to be a revenue loss of at least \$142.5 million per year (4.5 million (insulating concrete forms) + \$138 million (Energy Star)). The revenue loss from the provisions of the bill that cannot be estimated including all manufacturing costs, the IECC provisions, and any incentive effects created by the credit, could potentially be as large or larger than those that can be estimated.

Long-Range Fiscal Implications

Appliance Sales and Price Estimates, 2007

| Product | Room Air Conditioners | Dehumidifiers | Refrigerators | Freezers | Clothes Washers | Total |
|------------------------------------|-----------------------|---------------|---------------|-------------|-----------------|---------------|
| US Annual Sales (units) | 9,500,000 | 1,577,000 | 11,798,000 | 2,235,000 | 9,624,000 | 34,734,000 |
| Wisconsin Sales (1.8% of US Sales) | 171,000 | 28,386 | 212,364 | 40,230 | 173,232 | 625,212 |
| Energy Star % of US Sales | 25% | 25% | 25% | 25% | 42% | |
| Energy Star Price | \$240 | \$200 | \$1,200 | \$800 | \$750 | |
| State Taxes Loss(FY06) | \$10,260,000 | \$1,419,300 | \$63,709,200 | \$8,046,000 | \$54,568,080 | \$138,002,580 |

Assumptions:

Wisconsin accounts for 1.8% of US sales.

Source for US Sales:

<http://www.aham.org/ht/a/GetDocumentAction/i/8910>

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

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| LRB Number 07-1849/2 | | Introduction Number AB-0369 | |
| Description Income and franchise tax credits for insulating concrete forms used to construct a building and energy efficient products | | | |
| I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): | | | |
| II. Annualized Costs: | | Annualized Fiscal Impact on funds from: | |
| | | Increased Costs | Decreased Costs |
| A. State Costs by Category | | | |
| State Operations - Salaries and Fringes | | \$ | \$ |
| (FTE Position Changes) | | | |
| State Operations - Other Costs | | | |
| Local Assistance | | | |
| Aids to Individuals or Organizations | | | |
| TOTAL State Costs by Category | | \$ | \$ |
| B. State Costs by Source of Funds | | | |
| GPR | | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.) | | | |
| | | Increased Rev | Decreased Rev |
| GPR Taxes | | \$ | \$ |
| GPR Earned | | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| TOTAL State Revenues | | \$ | \$ |
| NET ANNUALIZED FISCAL IMPACT | | | |
| | | State | Local |
| NET CHANGE IN COSTS | | \$ | \$ |
| NET CHANGE IN REVENUE | | \$See Text | \$ |
| Agency/Prepared By | | Authorized Signature | |
| DOR/ Michael Oakleaf (608) 261-5173 | | Rebecca Boldt (608) 266-6785 | |
| | | Date | |
| | | 5/8/2007 | |