Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2009 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **09-0733/1**	Introduction Number **AB-0020**

Description
Denying tax benefits to financial institutions that violate the state or federal soldiers' relief act

Fiscal Effect

State:

☐ No State Fiscal Effect
☒ Indeterminate

☐ Increase Existing Appropriations
☐ Decrease Existing Appropriations
☐ Create New Appropriations
☐ Increase Existing Revenues
☐ Decrease Existing Revenues
☒ Increase Costs - May be possible to absorb within agency's budget ☒ Yes ☐ No
☐ Decrease Costs

Local:

☒ No Local Government Costs
☐ Indeterminate

1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
   ☐ Towns ☐ Village ☐ Cities
   ☐ Counties ☐ Others
   ☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	**Authorized Signature**	**Date**
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Fiscal Estimate Narratives

DOR 2/24/2009

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Description Denying tax benefits to financial institutions that violate the state or federal soldiers' relief act		

Assumptions Used in Arriving at Fiscal Estimate

The bill would deny tax benefits to any financial institution that violates the protections offered under federal and state laws to active duty soldiers and sailors and their dependents related to lawsuits, leases, obligations, contracts, and property taxes. The tax benefits that would be denied to the financial institutions include subtractions from federal income reported on Schedule W, net business loss carryforwards, all deductions on the financial institution's federal return that are allowed under the Internal Revenue Code sections referenced in Chapter 71 of the Wisconsin Statutes, and state refundable and non-refundable tax credits.

Fiscal Effect

Based on a simulation using tax year 2005 returns of financial institutions, the average increase in income and franchise tax liability that would result from the denial of all Wisconsin tax credits, deductions, and exclusions was approximately $169,600. In the simulation, several institutions had their tax liability increased by over $10 million, while approximately 41% of the financial institutions in the sample had no change in tax liability as a result of the denial of tax benefits contained in the bill. For the entities that had a difference in tax liability under the bill, the average increase in tax liability was approximately $288,000.

Because of the extreme variability in the effects of the bill on a financial institution's tax liability, and because presumably only a small number of financial institutions would be subject to denial of tax benefits as a result of violating the federal or state provision, the fiscal effect of the bill cannot be estimated.

Although they would potentially be affected by the bill, the above simulation did not include credit unions. Credit unions are tax exempt under current statutes, and since they do not file returns there was no data available for them in our sample. Under the bill, a credit union that violates one of the provisions cited would lose its tax exempt status. Based on data from the Department of Financial Institutions, there are approximately 260 credit unions in Wisconsin. In addition, extrapolating from data from the federal Joint Committee on Taxation, the state tax exemption for credit unions results in an annual revenue loss of approximately $15.3 million. Therefore, the average tax liability for a credit union that would result from loss of its state tax exemption is $58,846 ($15.3 million / 260 credit unions). However, as noted above in regard to the taxable financial institutions, due the extreme variability in the effects of the bill on tax liability, and because presumably only a small number of credit unions would be subject to loss of their tax exemption as a result of violating either the federal or state provision, the fiscal effect of the bill cannot be estimated.

There would be no state fiscal effect from the property tax provision of the bill. To the extent that a violation resulted in the denial of a property tax exemption, the bill would result in a local property tax shift from other taxpayers to the financial institution that was in violation. While most land and buildings owned in Wisconsin by financial institutions are taxable, computer equipment owned by financial institutions is generally exempt from property taxes under s. 70.11(39). A financial institution in violation of the federal provision would lose this exemption for seven years. Data does not exist to estimate the local fiscal effect of this provision.

Long-Range Fiscal Implications