

Fiscal Estimate Narratives

DOR 8/1/2011

LRB Number	11-2183/1	Introduction Number	AB-0171	Estimate Type	Original
Description An income and franchise tax credit for qualified production activities income					

Assumptions Used in Arriving at Fiscal Estimate

Under the federal Internal Revenue Code, a taxpayer may claim a deduction equal to 9% of the taxpayer's qualified production activities income in the taxable year or 9% of the taxpayer's total taxable income, whichever is less. For federal tax purposes, qualified production activities income is, generally, the amount of the taxpayer's domestic production gross receipts that exceed the sum of the cost of goods sold and other expenses, losses, or deductions. Domestic production gross receipts are, generally, gross receipts derived from property that was manufactured, produced, grown, or extracted in the United States.

Under the bill, an individual taxpayer may claim a state income tax credit equal to 7.5% of the taxpayer's qualified production activities income as defined under the Internal Revenue Code and that is derived from property that is assessed as manufacturing or agricultural property under Wisconsin statutes. A corporation or insurer may claim a state income and franchise tax credit equal to the lesser of its taxable income apportioned to this state or its qualified production activities income derived from property that is assessed under Wisconsin statutes as manufacturing or agricultural property, multiplied by 7.5%.

Fiscal Estimate

A qualified production activities income credit was enacted as part of the 2011-13 biennial budget (2011 Act 32). The provisions are the same as under this bill, except that the credit as enacted was phased in over four years, whereas under this bill there is no phase-in period. This estimate therefore reflects the difference between the phased-in credit enacted in 2011 Act 32 and the credit under this bill. Once the credit enacted in Act 32 is fully phased in, this bill would have no fiscal effect.

Based on a sample of corporate and individual tax returns that claimed the federal qualified production activities income deduction and adjusting for taxpayers that used a NAICs code indicating the taxpayer was engaged in manufacturing or agriculture, and assuming the bill is enacted before July 31, 2011, the bill would result in revenue losses of an estimated \$143.4 million in FY 2012 (including a one-time effect of \$28.7 million), \$111.0 million in FY 2013, \$84.5 million in FY 2014, \$56.4 million in FY 2015, and \$24.3 million in FY 2016.

If the bill is enacted after July 31, 2011, the fiscal effect would be a revenue reduction of an estimated \$28.7 million in FY 2012, \$111.0 million in FY 2013, \$84.5 million in FY 2014, \$56.4 million in FY 2015, and \$24.3 million in FY 2016.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2011 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description An income and franchise tax credit for qualified production activities income			
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			
		<u>State</u>	<u>Local</u>
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$See Text	\$
Agency/Prepared By		Authorized Signature	Date
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