

Fiscal Estimate Narratives

DOR 1/27/2014

LRB Number	13-4039/1	Introduction Number	AB-0001 (JR4)	Estimate Type	Original
Description Reducing the lowest individual income tax rate; providing technical college property tax relief aid; establishing a technical college district revenue limit; the carry-back of net operating losses; the sales and use tax exemption for commercial printing; the jobs tax credit; the electronic medical records credit; the manufacturing and agriculture credit; the research credit; the state historic rehabilitation credit; the relocated business credit; and making an appropriation					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, there are four individual income tax brackets. The rate of taxation for the lowest bracket is 4.4% of taxable income; the rate for the second bracket is 5.84%; the rate for the third bracket is 6.27%; and the rate for the highest bracket is 7.65%. This bill reduces the 4.4% tax rate to 4.0%, effective beginning in 2014.

Under 2013 Wisconsin Act 20, certain business net operating losses (NOLs) may be claimed against Wisconsin taxable income of the two years preceding the year in which the taxpayer sustained the loss. This bill clarifies that a taxpayer may choose not to carry back the NOL. The bill also provides that the Department of Revenue shall not pay interest on any overpayments that result from the carry back of NOLs.

Under current law, computation of household income for the homestead credit does not allow claimants to reduce their income by the amount of NOL carry forwards. This bill also disallows a reduction in household income for NOL carry backs.

The levy limit for technical college districts, under which the levy could not increase over the prior year's levy by more than the percentage change in equalized value due to net new construction, is repealed. In its place, the bill imposes a revenue limit on technical college districts, under which revenue is defined as the sum of the property tax levy and a new state aid payment known as the "property tax relief aid." Both changes would take effect beginning in the 2014-15 property tax year.

The "property tax relief aid" is a new state aid payment for technical college districts created under the bill. The first payments would be made in the 2014-15 property tax year. The aid would be distributed so that the tax rate effect for each technical college district would be equal. The aid payment for the 2014-15 is set at \$406 million, with future years' payments set under the bill at this same level. Had the \$406 million been distributed for the 2013-14 property tax year, the tax rate for each technical college district would have been reduced by \$0.8961 per \$1,000 equalized value. Compared to the average technical college tax rate of \$1.7584 per \$1,000 equalized value for 2013-14, the bill would have reduced the average tax rate by about 51%.

Individuals may currently claim a school property tax credit, a veterans and surviving spouses property tax credit, or a homestead property tax credit on their individual income tax return. These three credits are based on the amount of property tax paid by homeowners. As a result, the property tax reduction in this bill will reduce these credits.

Under current law, a person may claim the jobs tax credit if the Wisconsin Economic Development Corporation certifies the person to receive the tax credit, the person increases net employment in the person's business, and the person provides certain wages or job training to its full-time employees. The bill specifies that to be eligible for the jobs tax credit a person must increase net employment in the person's business in this state. Therefore, under the bill, a person may qualify for the jobs tax credit by relocating existing jobs to this state. Similarly, under the bill, a person does not qualify for the jobs tax credit by increasing the number of individuals the person's business employs nationwide if the number of individuals the person's business employs in this state does not increase.

Under current law an individual income tax deduction or a corporate income and franchise tax credit is allowed based on the income of a business that relocated to Wisconsin from another state or country during the tax year. The deduction is equal to the net business income earned by the relocated business, while the

credit is equal to the amount of the claimant's tax liability after applying all other allowable credits, deductions, and exclusions. Both the deduction and the credit are allowed for two consecutive taxable years beginning with the relocation year. Under 2013 Wisconsin Act 20, the business relocation deduction and credit may not be claimed for taxable years beginning after December 31, 2013. This bill allows claimants who first qualify for the deduction or credit for a taxable year beginning after December 31, 2012, and before January 1, 2014, to claim the deduction or credit in the following taxable year.

Under current law, for taxable years beginning after December 31, 2012, the non-refundable manufacturing and agriculture credit is available based on qualified production activities income. The credit is equal to a specified percentage (1.875% in 2013, 3.75% in 2014, 5.526% in 2015, and 7.5% after 2015) of the claimant's qualified production activities income that is derived from property assessed as manufacturing or agricultural property in Wisconsin.

Current law also allows a state historic rehabilitation credit equal to 25% of qualified expenditures to substantially rehabilitate certified historic buildings for noncommercial use. The credit applies to owner-occupied personal residences, provided that the residence is not used in the course of a trade or business.

The research credits, previously only available to corporations, were expanded under 2013 Act 20 to allow individual claimants.

For individual income tax filers, the manufacturing and agriculture credit, the state historic rehabilitation credit, and the research credits are applied against regular tax, but not allowed to offset the Wisconsin minimum tax. Under this bill, the credits are allowed to offset Wisconsin minimum tax liabilities.

Under current law, an income and franchise tax credit equal to 50% of the amount paid by a health care provider in a tax year for information technology hardware or software that is used to maintain medical records in an electronic form is available. 2013 Act 20 sunset the credit for taxable years beginning on or after January 1, 2014. The bill clarifies that the credit may not be claimed for amounts paid after December 31, 2013.

Finally, the bill makes technical changes to sales and use tax exemptions for businesses primarily engaged in commercial printing. The bill also clarifies definitions for the industries covered by the sales and use tax exemptions.

Fiscal Estimate

Rate Reduction - Reducing the bottom tax rate is expected to reduce revenue by \$2.1 million in fiscal year 2014, \$96.5 million in fiscal year 2015, and similar amounts annually thereafter.

Net Operating Loss Carrybacks - Based on an analysis of individual taxpayer returns with NOLs, these provisions are expected to minimally reduce revenue and minimally reduce expenses.

Technical Colleges - Based on equalized value data for 2013 and parcel counts from Statements of Assessment filed with the DOR, the average value of an improved residential parcel for the 2013-14 property tax year was about \$162,000. If the bill had been in effect for the 2013-14 property tax year, the tax savings on the average home would have been about \$145 ($\$162 * 0.8961$).

The additional aid to technical colleges will reduce the property taxes imposed by these districts, and thereby lead to a reduction in exempt computer aid payments to these districts. Based on data for the computer aid payment that will be made for the 2013-14 property tax year, the reduction in exempt computer aids would have been about \$2.5 million.

Property tax reduction effect on individual income tax credits - The bill is expected to reduce the school property tax credit by \$2.6 million annually beginning in fiscal year 2015. It is also expected to reduce the veterans and surviving spouses property tax credit and the homestead credit by \$1.5 million and \$800,000, respectively, beginning in fiscal year 2015.

Jobs Tax Credit - The changes in the bill are technical in nature and do not affect the statutory limits on how much credit may be allocated. Therefore the provision is not expected to have a fiscal effect.

Relocated Business Deduction and Tax Credit - Based on an analysis of claims filed for 2011 and 2012, this provision is expected to reduce revenue by \$110,000 in fiscal year 2014 and \$140,000 in fiscal year 2015. To the extent that more or fewer businesses relocate to Wisconsin in 2013 than in previous year, the fiscal effect of the provision will be higher or lower.

Manufacturing and Agriculture Credit, State Historic Rehabilitation Credit, and the Research Credits - Allowing the manufacturing and agriculture credit to offset minimum tax liabilities will reduce individual income tax revenues by \$11.3 million in FY 2014 and \$24.0 million in FY 2015, with increasing amounts thereafter. Based on past claims, allowing the state historic rehabilitation credit to offset minimum tax liabilities is expected to reduce revenue by \$1.1 million annually beginning in fiscal year 2015. The fiscal effect of allowing the research credits to offset minimum tax liability is unknown, but expected to be less than \$1.0 million annually.

Electronic Medical Records Credit - The changes under the bill are to clarify the intent of sunsetting the credit as provided for in 2013 Act 20. The entire fiscal effect of sunsetting the credit was included in the fiscal effect for Act 20. As such, the provision in this bill has no fiscal effect.

Sales and Use Tax Exemption for Tangible Personal Property Used in Commercial Printing - These changes are expected to have a minimal fiscal effect.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): The provision of the bill relating to the relocated business credit and deduction is expected to reduce general purpose tax revenue by \$110,000 in FY 2014 and \$140,000 in fiscal year 2015. There would be no ongoing fiscal effect beyond FY 2015.		
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		-4,800,000
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$	-\$4,800,000
B. State Costs by Source of Funds		
GPR		-4,800,000
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, ets.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$-124,200,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	-\$124,200,000
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$-4,800,000	\$
NET CHANGE IN REVENUE	\$-124,200,000	\$

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