WISCONSIN LEGISLATIVE COUNCIL
AMENDMENT MEMO

2001 Assembly Bill 380	Assembly Amendment 1
Memo published: October 23, 2001	***Contact*: Mary Matthias, Senior Staff Attorney (266-0932)**

2001 Assembly Bill 380 changes the formula used to attribute a portion of a corporation's income to this state for purposes of computing corporate income taxes and franchise taxes. The current formula has three factors: a sales factor, a property factor, and a payroll factor. The sales factor represents 50% of the formula and the property and payroll factors each represent 25% of the formula. Under the bill, the property and payroll factors in the formula are phased out over a four-year period as the sales factor is increased and becomes the only factor.

Assembly Amendment 1 makes several technical changes to the bill that were suggested by the Department of Revenue.

Computation of Sales Factor With Zeros or Negative Numbers

The amendment clarifies how the sales factor is to be computed when sales in this state are negative or zero. The amendment specifies that if both the numerator and the denominator of the sales factor are zero, for taxable years beginning before January 1, 2005, the sales factor is eliminated from the apportionment formula; for taxable years beginning on or after January 1, 2005, none of the taxpayer's remaining net income is apportioned to this state.

The amendment provides that if the numerator of the sales factor is a negative number and the denominator of the sales factor is a positive number, a negative number, or zero, for taxable years beginning before January 1, 2005, the sales factor is zero and for taxable years beginning on or after January 1, 2005, none of the taxpayer's remaining net income is apportioned to this state.

The amendment provides that if the numerator of the sales factor is a positive number and the denominator of the sales factor is zero or a negative number, for taxable years beginning before January 1, 2005, the sales factor is one and for taxable years beginning on or after January 1, 2005, 100% of the taxpayer's net income is apportioned to this state.

Effective Date

The amendment provides that with respect to insurance companies, the change in the computation of apportionable income first applies to taxable years beginning after December 31, 2002. According to the Department of Revenue, this change is necessary to avoid the possibility that insurance companies would be required to compute income by two methods during a tax year, which would result in additional work for the department in auditing the tax returns of those insurance companies.

On October 9, 2001, the Assembly Committee on Economic Development offered the amendment and recommended its adoption by a vote of Ayes, 8, Noes, 0, and passage of the bill, as amended, on a vote of Ayes, 7, Noes, 1.

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