To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Minor Policy and Technical Changes -- Tax Appeals Commission Filing Fee (General Fund Taxes and Administration -- Attached Programs)

[LFB Summary: Page 34, Item #20; Page 70, Item #9]

GOVERNOR

Increase, from $5 to $25, the filing fee for appeals to the Tax Appeals Commission. In addition, impose a $5 filing fee on appeals related to the Homestead Tax Credit (HTC).

MODIFICATION TO BILL

Increase GPR-Earned by $9,500 annually for Tax Appeals Commission filing fees.

Explanation: Under current law, a taxpayer or municipality can appeal a determination of the state Board of Assessors or the Department of Revenue by filing a petition with the Tax Appeals Commission. Petitioners are required to pay a $5 filing fee, which is deposited in the general fund as GPR-Earned. Appeals related to the Homestead and Farmland Preservation Tax Credits are not subject to the fee. The bill would increase the filing fee from $5 to $25 and specifically impose a $5 filing fee on appeals related to the HTC. However, the bill does not include any additional revenues to reflect the fee increase. As a result GPR-Earned estimates for filing fee collections should be increased by $9,500 annually.

Modification	GPR
1997-99 REVENUE (Change to Bill)	$19,000

Prepared by: Ron Shanovich

MO#________________________

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE _____ NO _____ ABS ___

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Tax Amnesty Program (General Fund Taxes)

CURRENT LAW

Under current law, taxes become delinquent when they are not paid by the due date. However, unpaid and unreported taxes are not immediately entered into the delinquent tax collection system but, rather, when an unpaid tax is identified, a bill is sent to the taxpayer. If the bill is not paid within 60 days, the tax is declared delinquent and an account is established for the unpaid tax. Ten days after an account is established, a delinquent tax notice is sent to the taxpayer. The notice indicates that the delinquent tax collection fee has been imposed and that the taxpayer is subject to various kinds of involuntary collection actions if the account is not resolved. If the taxpayer does not respond to the delinquent tax notice, the account is sent to the Central Collection Section or referred to a field agent.

If the case is the first delinquency for the taxpayer, it is assigned to the Central Collection Section. The case is then is referred to an agent who is required to send an informal notice to the taxpayer. The notice attempts to schedule a meeting with the taxpayer to make arrangements to settle the account. If the taxpayer does not respond to the notice or fails to follow through on repayment arrangements made at the informal hearing, the unit may proceed with involuntary collection actions such as withholding delinquent tax amounts from wages or garnishing bank accounts. Also, private collection agencies can be used to collect delinquent taxes. If an account is sizeable and cannot be resolved by the Central Collection Section within six to nine months, it is referred to a field agent.

In cases that involve repeat delinquencies for a taxpayer where the taxpayer does not respond to the delinquent tax notice, a warrant is sent to the taxpayer and the Circuit Court. The warrant places a lien on the delinquent taxpayer's property for the amount of tax, fees, interest and penalty. After the lien is placed, the delinquent account is sent to a field agent who attempts to arrange an informal hearing to resolve the delinquency. If the taxpayer ignores the collection efforts or refuses to pay, the agent may use involuntary collection measures.

Delinquent state taxes are subject to interest of 1.5% a month. Generally, the penalty for failure to file a return is equal to 5% of the tax per month, up to a maximum of 25% of the tax. Other penalties, such as those for fraud, negligence and filing false information, are also imposed and vary depending on the tax and circumstance. A delinquent tax collection fee equal to the greater of $35 or 6.5% of the delinquent balance is also imposed on each new account. The revenue from the fee is used to fund DOR's delinquent tax collection activities.

GOVERNOR

No provision.

DISCUSSION POINTS

Amnesty as Tax Policy

1. Attachment 1 shows the year-end balance of delinquent taxes and the number of delinquent tax accounts, by the type of tax, for fiscal years 1989-90 through 1995-96. (The table does not include accounts under $10 and related accounts. Related accounts are accounts established with more than one taxpayer for the same delinquent tax liability.) The attachment shows that the delinquent account balance has increased 129.2%, from $341.7 million on June 30, 1990, to $783.2 million on June 30, 1996. The individual income and withholding taxes and the sales and use tax have consistently been the primary sources of delinquencies. The number of delinquent accounts increased 29.8%, from 254,370 to 330,192, during that period.

Part of the increase reflects conversion of the funding source for delinquent tax collection activities from GPR to program revenue. The conversion led to actions that affected the delinquent tax balance. First, imposition of the delinquent tax fee in July, 1992, increased the amount owed by each account. The fee was increased again in December, 1995. In addition, under the Department's method of accounting for the delinquent balance, additional interest was added to the balance when the fee was imposed and increased. DOR doesn't formally account for accrued interest on delinquent accounts until a transaction in the account occurs.

2. Since 1995, five states have conducted amnesty programs under which they have granted, for a limited time, complete or partial forgiveness from civil and criminal penalties and interest owed for certain taxpayers on the condition they voluntarily pay the taxes they owe. The states are Connecticut, New York, New Jersey, Pennsylvania and Rhode Island. Attachment 2 provides descriptive information concerning the state amnesty programs for these states. The attachment indicates that the amnesty provisions generally involved the suspension or reduction of civil or criminal penalties. New Jersey provided amnesty from interest owed on delinquent accounts. The level of participation varied with New Jersey experiencing the highest level. Connecticut, New Jersey, New York and Rhode Island had conducted amnesty programs prior

to the most recent ones. Total collections ranged between $359 million in New Jersey to $7.8 million in Rhode Island.

3. Wisconsin conducted an amnesty program from September 15, 1985, through November 22, 1985. The program generated $26.3 million in additional tax collections. The Appendix provides a summary of the provisions of the program.

4. Increases in the delinquent tax balance indicate that the state is losing revenue because many taxpayers, both individuals and corporations, are not filing tax returns or are underpaying amounts owed. It is believed that some of these taxpayers did not file because of financial problems or simply due to oversight. These taxpayers may now be capable of paying taxes, but may be fearful of the possibility of large penalties, and might come forward with amounts owed if they would not have to face penalties.

Tax amnesty is viewed as a mechanism for encouraging such taxpayers to pay back the taxes owed the state. Proponents of tax amnesty believe such programs provide a low-cost, efficient method of collecting delinquent taxes that would otherwise be collected through more expensive methods or remain unpaid. In addition, tax amnesty can encourage nonfilers to come forward and, as a result, broaden the tax base by bringing these individuals back onto the tax rolls. To the extent amnesty would encourage businesses, particularly out-of-state businesses, to file returns, it would address the Department's greatest compliance problem. Finally, tax amnesty programs can provide both a short-term revenue gain and, to the extent nonfilers are identified, can generate increased revenues in future years.

5. However, tax amnesty has been criticized as being inequitable. Under amnesty, taxpayers that pay their taxes voluntarily and on time receive no benefit while others that underpay or do not pay their taxes are not fully penalized for such actions. One could argue that this promotes an injustice by overlooking violations of the law by tax evaders and delinquents. The credibility of the tax system could be undermined, because the legal penalties for noncompliance and delinquency are not enforced under amnesty. This is a potentially serious problem because compliance is primarily voluntary under the current tax system.

Arguably tax amnesty could actually encourage tax evasion and reduce collections in subsequent years if taxpayers anticipate similar programs in the future. This would be of particular concern in Wisconsin if a second amnesty program was enacted so soon after the first program. Moreover, the majority of amnesty collections are often not from delinquent taxpayers. In 1985, $19.2 million of amnesty collections were from assessments of additional liability from audits in progress.

Supporters would counter that the states which recently conducted amnesty programs for a second time (Connecticut, New Jersey, New York and Rhode Island) have indicated that the programs were successful and not detrimental to compliance. The New Jersey program was particularly successful generating the highest per capita revenue ($46.60) of any program ever administered in the U.S. while adding 2,000 new taxpayers to the tax rolls.

Program Design

State officials who have administered tax amnesty programs indicate that careful planning is necessary to ensure that the program will be successful. They point to a number of elements of an amnesty program that need to be considered in designing and implementing such a program. Included in these design factors to consider are eligibility, type of taxes covered, nature of amnesty provided, enhancement of enforcement activities, length of program administration and operational procedures.

Eligibility. On a general level, a basic question related to eligibility is whether or not to include known delinquents in the amnesty program. It is likely that inclusion of known delinquents will increase collections and participation during the amnesty period. Of the states which have conducted amnesty programs, those which have extended eligibility to known delinquents have generally had relatively larger numbers of participants and have generated relatively larger amounts of tax collections. Also, proponents contend that extending amnesty to include known delinquents reduced the costs of seeking out and prosecuting those delinquents below the costs which would be incurred through normal collection procedures.

However, those who oppose including known delinquents in amnesty programs believe that such individuals should be excluded in fairness to honest taxpayers. From this view, amnesty is seen solely a means of increasing the number of current and future taxpayers by attracting nonfilers to the tax rolls. Most of the states which have conducted tax amnesty programs have extended eligibility to known delinquents.

In 1985, both known delinquents and other taxpayers who owed amounts to the Department were eligible for amnesty. To be defined as delinquent the taxpayer's account had to meet one of the following conditions:

1. An assessment existed for which the appeal period had expired prior to the eligibility date and an amount was unpaid during the amnesty period.

2. A nonappealable billing notice which had a due date prior to the eligibility date had been issued and an amount was still unpaid during the amnesty period.

Other taxpayers who were eligible included taxpayers filing late returns voluntarily or upon request; taxpayers filing amended returns; taxpayers who had been assessed or billed; and taxpayers with pending appeals before the Department's Appellate Bureau, the Wisconsin Tax Appeals Commission or a court if they voluntarily withdrew the appeals.

The tax amnesty provisions did not apply in the following types of situations:

1. The persons applying for amnesty were the subject of tax-related criminal investigations or pending criminal prosecutions relating to any tax administered by the department.

2. The amounts for which amnesty was requested were subject to a civil collection action by the Department initiated before the amnesty application was received, or were similarly subject to other types of creditor enforcement proceedings under other state laws. This provision applied to delinquent accounts of nonresidents assigned to a collection agency by the Department.

3. The taxpayer was notified during the amnesty period of an adverse determination of his or her appeal to the Wisconsin Tax Appeals Commission or any court.

4. The person applied for amnesty and was notified of the balance due, yet made no payment or only partial payment of the balance within the period specified by the Department. In such cases, the forgiveness of amounts due or the waiver of penalties, fees and interest was disallowed and the taxpayer owed the full amount of any delinquency or assessment (less the amount of any partial payments made).

5. Amnesty was not allowed to taxpayers appealing an assessment, determination or notice to the Department, Wisconsin Tax Appeals Commission or any court unless the appeal was withdrawn by the taxpayer.

Types of Taxes. Most states which have operated amnesty programs have included all state taxes administered by the Revenue Department or similar agency in the amnesty program. Obviously, if all the state's significant revenue sources are covered, the potential number of participants and amount of revenue generated is greater. If an amnesty program is enacted, all state taxes administered by the Department's Income, Sales and Excise tax division could be included in the program. The 1985 amnesty program applied to the individual income, corporate income and franchise, sales and use, withholding, inheritance and gift, liquor, beer, wine, cigarette, tobacco, motor fuel and special fuel taxes and homestead and farmland tax credits.

Type of Amnesty. The greater the incentives provided to taxpayers the greater will be the participation and revenues that are generated. However, if amnesty provisions are too generous they raise equity issues since they may reward taxpayers who failed to abide by the tax laws or regulations.

From one point of view, an amnesty program should not be designed to create a "competitive premium" for dishonestly by reducing tax costs, including compliance costs, for the tax evader. Therefore, an amnesty should not reduce any ordinary taxpayer responsibilities (filing returns, supplying information), tax due, or normal interest on the liability. Providing any of these forms of relief would create an advantage for the amnesty recipient compared to the normal taxpayer. It is believed that whether or not amnesty discriminates against honest taxpayers depends primarily on the interest rate the government applies to past due taxes. If the rate is below the market rate, the previously dishonest taxpayer in the amnesty gains from what is effectively a low-interest government loan. However, if the interest rate is at or above the market rate, amnesty can provide relief from penalties and prosecution without creating any discrimination favoring the evader. Thus, supporters of this view believe that amnesty should be provided primarily in the form of reduced or suspended civil and criminal penalties and possibly with a reduction in interest.

On the other hand, some would argue that additional incentives should be provided. Total interest forgiveness and possibly some other form of forgiveness would encourage more widespread participation. In turn, this would attract more nonfilers than otherwise be the case, and as a result, add to the state's tax base.

As noted, most states which conducted amnesty programs suspended civil and criminal penalties. Some have offered reduced interest. New Jersey was the only state to forgive all interest owed. The Department of Revenue has recommended that the type of amnesty offered should be easy to compute and consistent.

In the 1985 state amnesty program, the tax amnesty provisions applied in the following types of situations:

1. For taxpayers who had a delinquent tax liability on record as of the starting date of the amnesty period, 20 percent of the delinquent balance as of the date of payment was forgiven. The maximum reduction was $5,000. Amnesty was not allowed unless all tax returns or other documents corresponding with the assessment, determination or notice of the tax lability were properly filed with the Department.

2. For taxpayers with an unpaid tax liability that was not on record as delinquent as of the beginning of amnesty, the Department waived penalties and fees and lowered the interest rate from 1.5% percent (the delinquent rate) to 1% (the normal rate) per month.

3. For taxpayers with a tax liability that was neither reported nor established (unknown), the taxpayers were allowed to file returns and make payment. Penalties, fees, and the right of the Department to seek prosecution were waived provided that proper payment was made. In addition, the interest on delinquent amounts was reduced from 1.5% to 1% per month. However, penalties and the full rate of interest could be imposed if additional taxes were due on the returns filed by the taxpayer, or if the taxpayer defaulted on the amnesty agreement.

In considering the type of amnesty provided, it is important to recognize that the Department's delinquent tax collection activities are entirely funded by the delinquent tax collection fee. The fee is equal to the greater of $35 or 6.5% of the delinquent balance due and is imposed on each new delinquent account at the time it is entered into the delinquent tax system. For 1997-98, base level funding for the Department's delinquent tax collection system

(DTCS) is $9,679,300 with 158.90 authorized positions. If the fee was suspended as part of the amnesty program, an alternative funding source would be needed for the DTCS.

Enhanced Enforcement of Tax Laws. The experience of states which have conducted amnesty programs indicates that an increased compliance effort by the state provides an incentive for delinquent taxpayers to voluntarily participate in the amnesty program, rather than risk the increased chance of detection by taxing authorities following the amnesty. All of the states that operated amnesty programs indicated that they had increased their compliance efforts in conjunction with or subsequent to the amnesty program. As outlined in the Appendix, several additional enforcement provisions were adopted along with the Wisconsin amnesty program in 1985.

Length of the Program. The recent amnesty programs conducted by other states have run from 75 days to three months. Proponents suggest that the length of the program should be long enough to allow taxpayers to complete the research and paperwork necessary to participate but not so long so that the publicity and advertising associated with the program loses its effectiveness. In 1985, the Wisconsin amnesty program ran 68 days, from September 15, 1985, through November 22, 1985.

Administration. Administration of a tax amnesty program involves a number of different activities. Proponents of amnesty point out that one of the key elements in the success of such programs is vigorous promotion and advertising of the program. In addition, returns must be processed, tax forms and supplemental information must be printed and distributed and information must be provided to interested taxpayers. The cost of administering the 1985 amnesty program was $959,700.

Fiscal Effect. The amount of revenue which can be expected to be collected through an amnesty program is dependent on the specific structure of the program, including such elements as eligibility requirements, the level of advertising and promotional activities and the current and expected future compliance activities undertaken by the Department of Revenue. As a result, it is possible to provide only a general estimate of the potential revenues which might be raised through amnesty. If an amnesty program that was similar to the 1985 program was instituted for all taxes administered by the Income, Sales and Excise Division of the Department, an estimated $40 million could potentially be generated. This amount would be offset by administrative costs and funding provided to replace the delinquent tax fee.

Department of Revenue Considerations

When the Committee was considering adopting an amnesty program in 1985, the Department of Revenue developed guidelines which were used to establish and implement the program. To date, DOR has offered some general suggestions for a second amnesty program, but has not prepared specific guidelines. These suggestions, which are outlined below, are not intended to be an indication of the Department's support for tax amnesty.

• Limit debts eligible for amnesty to liabilities that are already delinquent as of some date prior to enactment of the law. This discourages people from not paying current liabilities in anticipation of amnesty.

• For any estimated tax liabilities included in the eligible delinquent balance, require all returns to be filed before amnesty is granted.

• Make the amnesty easy to compute and consistent. The 1985 program allowed forgiveness of 20% of the balance due, up to $5,000.

• Leave the delinquent tax collection fee whole in order to provide adequate revenue to fund collection efforts after the amnesty program ends.

• Limit the required payment window to a period such as 90 days.

• Provide increased enforcement authority after amnesty ends. The Department has not provided specific suggestions for greater enforcement authority.

Because DOR would implement the amnesty program and continue to be responsible for tax administration and collection activities after the program ends, the Committee may wish to obtain additional input from the Department before adopting specific amnesty provisions. Therefore, the Committee could direct the Department to develop a specific proposal for an amnesty program to be considered by the Committee at the September, 1997, s. 13.10 meeting.

ALTERNATIVES TO BILL

1. Maintain current law.

2. Require DOR to develop a proposal for a tax amnesty program to be conducted in the 1997-98 fiscal year. Specify that the Department's proposal must be developed and presented for the Committee's consideration for inclusion in the 1997-99 biennial budget bill.

Alternative 2	GPR
1997-99 REVENUE (Change to Bill)	$40,000,000

3. Require DOR to develop a proposal for a tax amnesty program to be conducted in the 1997-98 fiscal year. Specify that the Department's proposal must be developed and presented for the Committee's consideration at the September, 1997, section 13.10 meeting. Provide that the Department could not implement the amnesty program without approval from the Committee.

Alternative 3	GPR
1997-99 REVENUE (Change to Bill)	$40,000,000

Prepared by: Ron Shanovich

MO#________________

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE _____ NO _____ ABS ____

ATTACHMENT 1

Year-End Delinquent Tax Balance and Number of Accounts, by Type of Tax
Fiscal Years 1989-90 through 1995-96*

	1989-90	1990-91	1991-92	1992-93***	1993-94	1994-95****	1995-96****
Individual Income							
Amount	$119,309,000	$127,655,000	$132,017,000	$212,978,000	$206,812,000	$234,285,091	$228,185,600
Count	74,384	69,957	67,869	72,127	66,008	72,767	67,496
Individual Withholding							
Amount	76,612,000	115,106,000	138,836,000	196,479,000	207,179,000	222,370,336	246,609,430
Count	57,477	71,785	74,369	82,792	88,187	91,877	95,638
Corporate Income							
Amount	17,795,000	19,190,000	22,282,000	39,525,000	44,084,000	50,068,332	54,012,909
Count	14,607	15,328	14,666	13,676	16,298	17,545	17,248
Sales							
Amount	115,377,000	130,534,000	147,326,000	163,811,000	179,804,000	193,159,759	199,951,979
Count	106,681	115,753	120,516	129,739	135,566	139,026	137,933
Other**							
Amount	12,563,000	14,807,000	25,841,000	39,943,000	51,695,000	52,983,035	54,442,254
Count	1,221	1,320	1,494	2,454	5,690	8,392	11,877
TOTAL							
Amount	$341,656,000	$407,292,000	$466,302,000	$652,736,000	$689,574,000	$752,866,553	$783,202,172
Count	254,370	274,143	278,914	300,788	311,749	329,607	330,192

SOURCE: Department of Revenue

* Totals do not include related accounts and accounts under $10.

** Includes aviation fuel, special fuel, inheritance, liquor, motor fuel, tobacco, utility and gift taxes and real estate transfer fees. Drug tax delinquencies were added in 1990-91; recycling surcharge delinquencies were added in 1991-92; manufacturing penalty in 1995; exposition center tax in 1996; stadium tax in 1997.

*** Includes $32 million in delinquent tax fee assessments and $173 in accrued interest, first reported as a result of imposition of the fee. The delinquent tax fee was authorized under 1991 Wisconsin Act 39 (the 1991-93 biennial budget act).

**** Includes increased delinquent tax fee assessments due to increase in delinquent tax fee, as provided in 1995 Wisconsin Act 27. The fee increase caused the posting of approximately $116 million in interest.

ATTACHMENT 2

Characteristics of Tax Amnesty Programs in Other States

State	Length of Programs	Eligible Taxpayers	Types of Taxes Included	Nature of Amnesty	Revenue Collected	Number of Participants	Administrative Costs
Connecticut	Three Months 1995	Nonfilers and known delinquents	All taxes	Civil and criminal penalties, reduced interest	$46.2 million	14,900	$1.0 million
New Jersey	90 days 1996	Nonfilers and known delinquents	All taxes	Civil and criminal penalties, all interest, 5% penalty on taxes unpaid at end of amnesty period	$359 million	114,000	$10 million
New York	Three months Nov, 1996 to January, 1997	Nonfilers and known delinquents	Personal income, corporate franchise, sales and use, estate and gift, motor fuel and certain other state and local taxes	Civil and criminal penalties	$275 million through May 13, 1997	N.A.	N.A.
Pennsylvania	Three months 1995 to 1996	Nonfilers and known delinquents	All taxes	Civil and criminal penalties	$91 million	56,000	$9.6 million
Rhode Island	75 days 1996	Nonfilers and known delinquents	All taxes	Civil and criminal penalties	$7.8 million	2,213	$300,000

APPENDIX

1985 Wisconsin Tax Amnesty Program

The tax amnesty program was established by 1985 Wisconsin Act 29 (the 1985-87 biennial budget act). The program was not included in the Governor's budget recommendations but was incorporated into the budget bill (1985 Assembly Bill 85) by the Joint Committee on Finance and modified by the Legislature. The following sections describe each of the specific components of the program.

Eligibility. The amnesty program applied to delinquent taxpayers (as specifically defined for the program); nonfilers who owed taxes, interest or penalties; taxpayers who filed late returns voluntarily or upon request; taxpayers who filed amended returns; taxpayers that were assessed or billed; and taxpayers with pending appeals before the Department of Revenue's (DOR) Appellate Bureau, the Wisconsin Tax Appeals Commission or a court that could withdraw the appeals. The program excluded certain taxpayers from eligibility for amnesty, such as accounts involving criminal investigations or criminal complaints.

Taxes. All state taxes that were administered by the Income, Sales, Inheritance and Excise Tax Division in DOR were included in the program. Specifically, the program applied to: the individual and corporate income and franchise taxes; sales and use taxes; withholding tax; inheritance and gift taxes; liquor, beer, wine, cigarette and tobacco taxes; motor fuel and special fuel taxes; and homestead and farmland tax credits.

Amnesty. Under the amnesty provisions, the Department of Revenue was authorized to: (a) waive civil and criminal penalties; (b) waive late filing fees; (c) reduce from 18% to 12% the rate of interest owed by nondelinquents; and (d) reduce tax liability by 20%, up to a maximum amount of $5,000. The addition to tax penalty for civil fraud that was assessed prior to the date of applying for amnesty was not waived.

Enhanced Enforcement. In conjunction with the amnesty program, a number of compliance provisions were enacted and strengthened. Included among these enhanced enforcement provisions were the following:

(a) A levy law was established to allow for direct seizure of the assets of a delinquent taxpayer;

(b) The penalty for tax fraud was increased from 50% to 100% of the amount of the tax on the underpayment;

(c) Late filing fees under the individual and corporate income and franchise taxes were increased from $10 to $20 for returns filed more than 60 days late.

In addition, there were a number of enhanced compliance provisions that were included in Act 29 that were in the Governor's recommendations and, thus, not directly linked to the amnesty program but worked to increase the incentive for delinquent taxpayers to participate. For example, as submitted by the Governor, AB 85 contained provisions that authorized state agencies to revoke or refuse to renew or issue occupational licenses for persons who owed delinquent state taxes.

Length of Program. The program ran from September 15, 1985, through November 22, 1985. Taxpayers could apply for amnesty only during this time period.

Miscellaneous Operational Provisions. The cut-off date after which taxpayers who became delinquent or failed to file were no longer eligible to apply for amnesty was May 15, 1985. Taxpayers were required to submit a written application in order to participate in the program. All amounts that were due had to be paid in full and all returns had to be filed, including returns for which an estimated assessment was issued. Payments were made in cash, money order, cashier's check or other guaranteed amounts and had to be paid within 90 days after receiving notification from the Department. All amounts paid under amnesty were final and conclusive. No refunds were allowed at a later date, regardless of other statutory changes.

Administration. The Department of Revenue was provided $959,700 to administer the amnesty program.

Revenue. In Act 29, the revenue generated by the amnesty program was placed in a separate segregated fund and used to cover the costs of operating and administering the elderly property tax deferral program. However, as part of a number of measures that were included in 1985 Wisconsin Act 120 (the 1986 Fiscal Management Bill) to address a projected $340 million revenue shortfall in 1986-87, amnesty collections were transferred to the general fund. Originally, it was estimated that the amnesty program would generate $10 million; actual collections were approximately $26.3 million.

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Utility Tax on Personal Communications Services (General Fund Taxes)

[LFB Summary: Page 32, #15]

CURRENT LAW

Under current law, a gross revenues tax is imposed on all telecommunications companies at a rate of 5.77%. Beginning with taxes due for 1998, the gross revenues license fee will be eliminated and an ad valorem tax will be imposed (as enacted in 1995 Wisconsin Act 351). As part of the shift from a gross revenues fee to an ad valorem tax, each cellular mobile radio telecommunications company and local exchange service company will pay a transitional fee for 1999 and 2000. The fee will be the difference between the taxpayer's ad valorem utility tax payment and the amount that the taxpayer would pay if subject to the gross revenues tax. Under current law, "cellular mobile radio communications utility" means a person authorized by the Federal Communications Commission (FCC) to provide cellular service. Interexchange companies and resellers will not be subject to the transitional fee.

GOVERNOR

Specify that the transitional adjustment fee on certain telecommunications utilities would be imposed on persons that provide commercial mobile service rather than on cellular mobile radio telecommunications companies. Commercial mobile services would have the same meaning as under federal law.

DISCUSSION POINTS

1. Under federal law, "commercial mobile service" means any mobile service (radio communication carried on between mobile stations and land stations or between different mobile stations) that is provided for profit and made available to the public or to a substantial portion of the public. Both cellular communications and personal communications services (PCS) are forms of commercial mobile service.

2. PCS companies are an emerging group of telecommunications businesses that use a different portion of the radio spectrum than cellular companies. The two different types of services are the same from a consumer viewpoint. At this time, there are two PCS companies operating in Wisconsin.

3. The administration indicates that the intent of the budget provision is to clarify that PCS companies would be treated the same as cellular telecommunications companies for purposes of the transition fee. The administration also indicates that when Act 351 was enacted, it was understood that the term cellular mobile radio telecommunications included PCS.

4. If the modification is not made, it is possible that the transitional fee could not be collected from PCS companies without litigation.

5. On April 22, 1997, the Department of Revenue sent a letter to the Committee requesting a technical correction to this provision to ensure that resellers of commercial mobile services would continue to be exempt from the transition fee. Under the bill, resellers of commercial mobile service would be subject to the transition fee because they provide commercial mobile services to their customers. However, resellers will already pay the fee indirectly when they purchase the service to resell. The modification requested by DOR would specify that only persons licensed by the FCC to provide commercial mobile service would be subject to the transition fee. Since resellers are not licensed by the FCC, they would not have to pay the transition fee on the service they resell. Under current law, the resale of local exchange service does not trigger the fee for resellers.

6. The April 22 letter also requested a second modification to the transition fee. Under current law, if an interexchange company also engages in the business of selling cellular phone service (or commercial mobile service under the bill recommendation), all of the interexchange company's gross revenues would be subject to the transition fee, including revenues from providing interexchange service. The Department has requested a modification to specify that only the revenues from commercial mobile service be used in the calculation of the transitional fee. The Department indicates that it was not the intent of Act 351 to impose the fee on interexchange revenues.

ALTERNATIVES TO BILL

1. Adopt the Governor's recommendation to specify that the transitional adjustment fee would be imposed on persons that provide commercial mobile service (as defined by federal law) with a modification to specify that only persons licensed by the FCC to provide commercial mobile service would be subject to the transition fee.

2. Adopt the modification requested by the Department of Revenue to specify that, if an interexchange company also provides commercial mobile service, the revenues used to calculate the transition fee would be limited to the person's activities as a commercial mobile service provider.

3. Maintain current law.

Prepared by: Kelsie Doty

MO#________________

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE ____ NO ____ ABS __

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Minor Policy and Technical Changes -- Use Tax on Automobiles Used by Dealers (General Fund Taxes)

[LFB Summary: Page 25, Item #9]

GOVERNOR

Modify provisions regarding imposition of the use tax on vehicles that are used for a purpose in addition to retention, demonstration or display while held for sale in the regular course of business by motor vehicle dealers. Under current law, the use tax is imposed on the fair rental or lease value of the vehicle as determined under federal income tax regulations, except that the lease value for vehicles held in inventory and used by employes for whom the dealer is required to withhold federal income taxes is specified at $96 per month. The $96 amount is adjusted for inflation each year.

Under the bill, the $96 monthly lease value would also be applied to persons who have an ownership interest in the dealership and actively participate in the daily operation of the dealership. This provision would take effect on the first day of the second month beginning after publication of the bill. The fiscal effect is estimated to be minimal.

MODIFICATION TO BILL

Define "actively participates" for purposes of this provision to mean the sole proprietor, partner, subchapter S shareholder, or LLC member performs services for the motor vehicle dealership, such as sales, accounting, management and consulting, for more than 500 hours in a taxable year for which such person receives compensation. "Actively participate" would not include services performed only in the capacity of an investor such as studying and reviewing financial statements or reports on operation of the business, preparing or compiling summaries or analyses of finances of the business for the investor's own use, or monitoring the finances or operations of the activity in a non-managerial capacity.

In addition, modify the language to read "day-to-day" rather than "daily" operation of the dealership.

Explanation: The Department of Revenue indicates that these modifications are necessary in order to clarify that the budget provision would not apply to individuals who are only marginally involved in the day-to-day operations of the dealership.

Prepared by: Rob Reinhardt

MO#__________

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE ____ NO ____ ABS ____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Increase Cigarette Tax (General Fund Taxes)

[LFB Summary: Page 21, #2 and Page 554, #2]

CURRENT LAW

Wisconsin imposes an excise tax on the sale of cigarettes. The tax rate is generally 44¢ per pack, or 22 mills per cigarette, although for larger cigarettes (weighing more than three pounds per thousand) the tax rate is 44 mills per cigarette. Cigarette tax collections totaled $198.0 million in 1995-96 and are estimated to be $198.0 million in 1996-97, $196.0 million in 1997-98 and $194.0 million in 1998-99 under current law.

GOVERNOR

Increase the cigarette tax rate by 5¢ per pack, from 44¢ per pack to 49¢, effective on the first day of the second month beginning after publication of the budget act.

DISCUSSION POINTS

1. The bill estimates that the proposed cigarette tax increase would generate $20,400,000 in 1997-98 and $21,500,000 in 1998-99, assuming an effective date of September 1, 1997. In addition, funding for cigarette tax refunds to Native American retailers is increased by $700,000 GPR in 1997-98 and $1,100,000 GPR in 1998-99 to reflect the proposed increase in the tax rate (under an agreement with the state, the tribes are refunded 70% of the tax paid on cigarette sales made to non-tribal members and 100% of the tax on sales made to Native

Americans). Therefore, the net impact of the tax increase is estimated at $19,700,000 in the first year and $20,600,000 in the second year.

It is assumed that an increase in the cigarette tax would result in reduced demand for cigarettes in Wisconsin. However, the administration's figures do not fully account for this factor. Therefore, the estimates for the tax increase should be revised to $19,400,000 in 1997-98 and $20,300,000 in 1998-99. The additional refunds to Native American retailers should be reestimated to be $800,000 in the first year and $1,200,000 in the second year. With these revisions, the net impact of the tax increase would be $18,600,000 in 1997-98 and $19,100,000 in 1998-99. These amounts are lower than the figures used in the bill by $1,100,000 in the first year and $300,000 in the second year.

2. Attachment 1 identifies the cigarette tax rates in effect in other states. Currently, there are 12 states with a higher tax than Wisconsin, the highest being Washington with a tax of 82.5¢ per pack. The state with the lowest cigarette tax is Virginia at 2.5¢ per pack. Of the neighboring states, the cigarette tax is currently 44¢ per pack in Illinois, 36¢ per pack in Iowa, 75¢ in Michigan and 48¢ in Minnesota. Although not shown in the attachment, the federal excise tax on cigarettes has been 24¢ per pack since January 1, 1993.

3. The cigarette tax rate has been increased three times in the last ten years. The rate was increased from 25¢ per pack to 30¢ on September 1, 1987. On May 1, 1992, the rate was increased to 38¢ and the current rate of 44¢ per pack was established in 1995 Wisconsin Act 27, effective September 1, 1995.

4. Attachment 2 outlines the estimated fiscal effects of a number of potential cigarette tax increases, assuming an effective date of September 1, 1997. If a different effective date is used, the 1997-98 estimates would vary. The estimates also account for: (a) one-time revenues in 1997-98 from the floor tax on inventories; (b) increased sales tax revenues since the state sales tax is imposed on the price of cigarettes, including the excise tax; (c) increased refunds of cigarette taxes for sales on Native American reservations; and (d) decreased demand in response to a state tax increase.

5. Wisconsin also imposes an occupational tax on the sale of all other tobacco products, except cigarettes, equal to 20% of the manufacturer's list price to distributors. According to data from the Department of Agriculture, Trade and Consumer Protection, the manufacturer's price of premium cigarettes when sold to distributors is $12.29 per carton (or $1.23 per pack) for 1997. A 49¢ per pack cigarette tax rate, as proposed in the bill, is 40% ($0.49 / $1.23) of the manufacturer's price, which is double the state's tax on other tobacco products. Tobacco product tax collections totaled $7.4 million in 1995-96 and are estimated to be $8.4 million in 1996-97, $9.0 million in 1997-98, and $9.5 million in 1998-99.

The tobacco products tax could be increased to 40% of the manufacturer's list price to make it comparable with the proposed cigarette tax rate. This modification would generate an estimated $7,300,000 in 1997-98 and $9,300,000 in 1998-99, assuming an effective date of September 1, 1997.

6. Under the bill, the cigarette tax increase would be effective on the first day of the second month beginning after publication. The fiscal estimates reflect an effective date of September 1, 1997, which would occur if the budget were enacted in July. However, if the bill were not enacted until August, the effective date of the tax increase would be October 1, 1997, which would reduce the fiscal effect by $1.5 million in 1997-98. [Two of the last three biennial budgets were enacted during the month of August.] In order to prevent this revenue loss, the bill could be modified so that the cigarette tax increase would be effective on the first day of the second month beginning after publication of the budget act or September 1, 1997, whichever is earlier.

ALTERNATIVES TO BILL

1. Adopt the Governor's recommendation to increase the cigarette tax rate by 5¢ per pack, from 44¢ per pack to 49¢, effective on the first day of the second month beginning after publication the budget act. Reestimate the fiscal effect of the tax increase to be $19,400,000 in 1997-98 and $20,300,000 in 1998-99, a decrease of $1,000,000 in 1997-98 and $1,200,000 from the bill. Increase funding for cigarette tax refunds to Native Americans by $100,000 GPR in each year.

Alternative 1	GPR
1997-99 REVENUE (Change to Bill)	- $2,200,000
1997-99 FUNDING (Change to Bill)	$200,000

2. Adopt the Governor's recommendation with a modification to specify that the rate increase would be effective on the first day of the second month beginning after publication of the budget act or September 1, 1997, whichever is earlier.

Alternative 2	GPR
1997-99 REVENUE (Change to Bill)	- $2,200,000
1997-99 FUNDING (Change to Bill)	$200,000

3. Adopt one of the alternative cigarette tax increases outlined in Attachment 2 effective on the first day of the second month after publication of the budget act or September 1, 1997, whichever is earlier.

4. Increase the occupational tax on tobacco products from 20% to 40% of the manufacturer's list price to distributors, effective on the first day of the second month beginning

after publication of the budget act or September 1, 1997, whichever is earlier. This alternative is estimated to increase revenues by $7.3 million in 1997-98 and $9.3 million in 1998-99.

Alternative 4	GPR
1997-99 REVENUE (Change to Bill)	$16,600,000

5. Maintain current law.

Alternative 5	GPR
1997-99 REVENUE (Change to Bill)	- $41,900,000
1997-99 FUNDING (Change to Bill)	- $1,800,000

Prepared by: Kelsie Doty

MO#____________________

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE_____ NO_____ ABS_____

ATTACHMENT 1

Cigarette Tax Rates in Other States*

State	Tax Rate Per Pack	State	Tax Rate Per Pack
Washington	82.5¢	Florida	33.9¢
Massachusetts	76.0	South Dakota	33.0
Michigan	75.0	Pennsylvania	31.0
Oregon	68.0	Alaska	29.0
District of Columbia	65.0	Idaho	28.0
Rhode Island	61.0	New Hampshire	25.0
Hawaii	60.0	Delaware	24.0
Arizona	58.0	Kansas	24.0
New York	56.0	Ohio	24.0
Utah*	51.5	Oklahoma	23.0
Connecticut	50.0	New Mexico	21.0
Minnesota	48.0	Colorado	20.0
Illinois	44.0	Louisiana	20.0
North Dakota	44.0	Mississippi	18.0
Vermont	44.0	Montana	18.0
WISCONSIN	44.0	Missouri	17.0
Texas	41.0	West Virginia	17.0
New Jersey	40.0	Alabama	16.5
California	37.0	Indiana	15.5
Maine	37.0	Tennessee	13.0
Iowa	36.0	Georgia	12.0
Maryland	36.0	Wyoming	12.0
Nevada	35.0	South Carolina	7.0
Arkansas	34.0	North Carolina	5.0
Nebraska	34.0	Kentucky	3.0
		Virginia	2.5

*As of July 1, 1997.

ATTACHMENT 2

Estimated Fiscal Effects of Alternative Cigarette Tax Increases

Tax Increase	New Tax Rate	Fiscal Effect (In Millions) 1997-98*	1998-99	1997-99 Biennium*	Change to Bill
$0.01	$0.45	$3.9	$3.9	$7.8	-$32.3
0.02	0.46	7.5	7.6	15.1	-25.0
0.03	0.47	11.2	11.6	22.8	-17.3
0.04	0.48	14.8	15.4	30.2	-9.9
0.05	0.49	18.6	19.1	37.7	-2.4
0.06	0.50	22.3	22.9	45.2	5.1
0.07	0.51	25.8	26.7	52.5	12.4
0.08	0.52	29.5	30.3	59.8	19.7
0.09	0.53	33.1	34.2	67.3	27.2
0.10	0.54	36.8	37.9	74.7	34.6
0.15	0.59	54.3	56.1	110.4	70.3
0.20	0.64	71.9	73.8	145.7	105.6
0.25	0.69	88.8	91.0	179.8	139.7
0.30	0.74	105.4	107.9	213.3	173.2
0.40	0.84	137.2	140.1	277.3	237.2
0.50	0.94	167.6	170.5	338.1	298.0
0.56	1.00	185.0	187.8	372.8	332.7
0.75	1.19	236.4	238.2	474.6	434.5
1.00	1.44	295.1	294.2	589.3	549.2

*Reflects an effective date of September 1, 1997.

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Individual Income Tax -- One-Time Credit (General Fund Taxes)

CURRENT LAW

No provision.

GOVERNOR

No provision.

DISCUSSION POINTS

1. On May 5, 1997, estimates of general fund tax collections were revised to reflect current year collections data and more recent forecasts of the U.S. economy. Estimates were increased by $95 million in 1996-97, $75 million in 1997-98 and $60 million in 1998-99 for a total increase of $230 million over the three fiscal years.

2. Since most of the $230 million is from 1996-97 and 1997-98, it may be preferable to distribute those revenues through a one-time mechanism rather than enacting a permanent tax reduction or increasing spending on an ongoing basis.

3. This paper provides information on one-time income tax credits that could be provided for tax year 1997. The first section provides information on credit alternatives that would equal 10% of a taxpayer's net income tax liability. The second section provides information on a one-time property tax/rent credit (PTRC).

One-Time Credit Equal to 10% of Net Tax Liability

4. This credit would equal 10% of a taxpayer's net income tax liability. The credit would be limited to a maximum amount based on filing status and would cost an estimated $150 million. There are two options for establishing a maximum credit amount.

Alternative 1. The credit could be structured so that the maximum credit for married taxpayers filing joint returns would be $100, the maximum credit for single taxpayers would be $75 and the maximum credit for married-separate taxpayers would be $50. This would establish the same relationship between the different filing statuses for the maximum one-time credit as currently exists for purposes of the income tax brackets.

Alternative 2. The credit could also be structured so that the maximum credit for married-joint taxpayers would be $110 and the maximum credit for single and married-separate taxpayers would be $55. Under this option, the credit would not create a marriage penalty since the maximum credit for single taxpayers would be one-half of the maximum credit for married taxpayers filing a joint return. A marriage penalty exists when a married couple filing a joint return pays more taxes than two single taxpayers filing single returns.

5. Attachments 1 and 2 to this paper provide information on the 10% one-time credit based on the 1995 Wisconsin tax sample. The sample has data from over 20,000 tax returns, weighted to reflect all taxpayers in 1995. However, changes in the number of taxpayers and the kinds and amounts of income they claim over time cannot be shown. To the extent possible, changes in tax laws between 1995 and later years have been included. The amounts shown in the attachments and the estimated fiscal effect differ because the attachments reflect 1995 data and the fiscal estimate is for the 1997-98 fiscal year.

Attachment 1 shows distributional information under the option to set the maximum credit amounts at $100 for married-joint taxpayers, $75 for single taxpayers and $50 for married-separate taxpayers. Attachment 2 shows distributional information for an option to set the maximum credit amounts at $110 for married-joint taxpayers and $55 for single and married-separate taxpayers.

6. If the two attachments are compared, it can be seen that the distribution of each alternative is similar. However, the average credit is larger for taxpayers with income between $15,000 and $40,000 under Alternative 1 while taxpayers with income above $40,000 would receive a larger average credit under the second alternative. This occurs because the maximum credit is higher for single taxpayers under the first alternative and the maximum credit is larger for married-joint taxpayers under Alternative 2.

7. Under the provisions of Chapter 1, Laws of 1979, a one-time credit equal to 16% of tax liability, up to a maximum of $900, was provided for tax year 1979. As part of that credit, an eight-week individual income tax withholding moratorium was provided during May

and June of 1979. Self-employed persons who were required to make quarterly estimated tax payments were allowed to reduce the last three payments to reflect the credit. Persons not subject to withholding and not required to make estimated payments during the year were able to claim the credit when their 1979 tax returns were filed. A two-week withholding moratorium could be provided to reflect the 10% credit for tax year 1997.

8. As noted in Attachments 1 and 2, the average tax benefit from the one-time credit would be approximately $70. Establishing a two-week withholding moratorium would allow taxpayers to receive the credit several months earlier than if the credit was claimed on the 1997 tax return. However, the withholding moratorium would create an additional administrative burden on employers and the Department of Revenue in processing withholding payments.

One-Time Property Tax/Rent Credit

9. Under current law, a PTRC equal to 10% of property taxes or rent constituting property taxes paid on a principal residence up to a maximum amount of $2,000 is provided. The maximum credit is $200. For homeowners, the credit is equal to 10% of property taxes paid on a principal residence during the tax year. The credit is available to renters based on 10% of rent constituting property taxes. Rent constituting property taxes is defined as 25% of actual rent if payment for heat is not included in rent or 20% of actual rent if payment for heat is included in rent. The credit is applied directly against income tax liability, but the credit is not refundable.

10. The PTRC could be increased on a one-time basis for tax year 1997. There are two options presented in this memorandum for establishing the maximum property tax amount and credit percentage. Under each of the alternatives, the credit would continue to be nonrefundable.

Alternative 3. The credit would be 15% of property taxes or rent constituting property taxes up to a maximum of $3,000 in taxes. The maximum credit would be $450. This alternative is estimated to cost $167.7 million in 1997-98.

Alternative 4. The credit would be 20% of property taxes or rent constituting property taxes up to a maximum of $2,000 in taxes. The maximum credit would be $400. This alternative is estimated to cost $216.3 million in 1997-98.

11. For federal income tax purposes, taxpayers can claim the greater of the federal standard deduction or itemized deductions. Itemized deductions include the amounts paid for property taxes within the calendar year, regardless of the year for which the tax is levied. Taxpayers whose itemized deductions are smaller than their federal standard deduction may choose to pay two years of property taxes in one calendar year in order to claim itemized deductions in one year and the standard deduction in the next year (this is referred to as "doubling up"). For most taxpayers, the property tax amount claimed as an itemized deduction for federal tax purposes is the same amount used in calculating the state's PTRC.

12. Under the provisions of 1989 Wisconsin Act 31, a one-time increase in the PTRC was provided, based on property taxes or rent constituting property taxes paid in 1987 and 1988. The credit percentages were increased by 6.5% for each year and the maximum of $2,000 in property taxes was retained. The one-time credit was not reflected in the income tax forms, but rather a tax refund check was issued in April of 1990, using tax forms already filed for tax years 1987 and 1988. Taxpayers who doubled up property taxes in 1987 or 1988 objected to the Act 31 credit because it was based on tax forms already filed. These individuals argued that they may have chosen to pay property taxes in different years if the one-time credit had been available at the time the returns were filed.

13. The one-time PTRC alternatives presented in this paper differ from the Act 31 credit because the proposed credit would be reflected on the 1997 tax return. As a result, taxpayers would be able to weigh all of the tax implications of doubling up property taxes prior to paying property taxes and filing income tax returns.

14. Attachments 3 and 4 provide information on the one-time PTRC options described above based on the 1995 Wisconsin tax sample. If the attachments are compared, it can be seen that lower-income taxpayers tend to fare better under Alternative 4 while higher-income taxpayers tend to fare better under Alternative 3. This would happen because individuals who pay a relatively small amount of property taxes would receive a larger tax benefit from a larger credit percentage while individuals who pay a relatively large amount in property taxes would be better off with an alternative that would increase the maximum amount of property taxes eligible for the credit.

15. Attachment 5 shows the potential PTRC under current law and under each of the alternatives for various amounts of property tax or rent constituting property tax. Individuals who pay $2,600 or less in property taxes would be eligible for a larger credit under Alternative 4. Taxpayers who pay $2,700 or more in property taxes would be eligible for a larger credit under Alternative 3. According to the tax sample, the average property tax or rent constituting property tax that was used in claiming the PTRC in 1995 was $1,836. It is also estimated that, under the budget bill, the net property tax bill on a median-valued home in the state for 1997 would be $1,976.

ALTERNATIVES TO BILL

10% One-Time Credit

1. Provide a one-time individual income tax credit equal to 10% of net tax liability up to $100 for married-joint taxpayers, $75 for single taxpayers and $50 for married taxpayers filing separate returns.

Alternative 1	GPR
1997-99 REVENUE (Change to Bill)	- $150,000,000

2. Provide a one-time individual income tax credit equal to 10% of net tax liability up to $110 for married-joint taxpayers and $55 for single and married-separate taxpayers.

Alternative 2	GPR
1997-99 REVENUE (Change to Bill)	- $150,000,000

3. Create a two-week withholding moratorium to reflect the 10% one-time credit. Direct DOR to notify employers of the moratorium and to provide instructions to self-employed individuals to reflect the credit in their estimated tax payments.

One-Time PTRC

4. Provide a one-time PTRC equal to 15% of property taxes or rent constituting property taxes up to a maximum of $3,000 in taxes in tax year 1997. The maximum credit would be $450. This alternative is estimated to cost $167.7 million in 1997-98.

Alternative 4	GPR
1997-99 REVENUE (Change to Bill)	- $167,700,000

5. Provide a one-time PTRC equal to 20% of property taxes or rent constituting property taxes up to a maximum of $2,000 in taxes in tax year 1997. The maximum credit would be $400. This alternative is estimated to cost $216.3 million in 1997-98.

Alternative 5	GPR
1997-99 REVENUE (Change to Bill)	- $216,300,000

Prepared by: Kelsie Doty

MO#________________________

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE_____ NO_____ ABS_____

ATTACHMENT 1

Distribution of Tax Decrease Under a Proposal to Create a One-Time 10% Credit With a Maximum of $100 Married-Joint, $75 Single and $50 Married-Separate
Alternative 1

Wisconsin Adjusted Gross Income	Taxpayers With a Tax Decrease						
	Count	Percent of Count	Amount of Tax Decrease	Percent of Amount	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under $5,000	41,500	2.2%	-$268,000	0.2%	-$6	363,200	11.4%
5,000 to 10,000	159,000	8.4	-1,863,000	1.4	-12	282,500	56.3
10,000 to 15,000	212,800	11.2	-6,019,000	4.5	-28	247,700	85.9
15,000 to 20,000	216,700	11.5	-11,776,000	8.9	-54	218,200	99.3
20,000 to 25,000	182,500	9.6	-13,125,000	9.9	-72	182,600	99.9
25,000 to 30,000	151,000	8.0	-12,279,000	9.2	-81	151,400	99.7
30,000 to 40,000	255,000	13.5	-22,677,000	17.0	-89	255,000	100.0
40,000 to 50,000	211,200	11.2	-19,914,000	15.0	-94	211,200	100.0
50,000 to 75,000	298,400	15.8	-29,091,000	21.9	-97	298,400	100.0
75,000 to 100,000	92,100	4.9	-9,053,000	6.8	-98	92,100	100.0
100,000 to 200,000	53,600	2.8	-5,239,000	3.9	-98	53,600	100.0
200,000 to 300,000	9,000	0.5	-883,000	0.7	-98	9,000	100.0
300,000 and Over	8,600	0.4	-838,000	0.6	-97	8,600	100.0
TOTALS	1,891,400	100.0%	-$133,025,000	100.0%	-$70	2,373,500	79.7%

SOURCE: 1995 Wisconsin Tax Sample

• Approximately 1.9 million taxpayers, or 79.7% of all taxpayers would receive a tax benefit from the credit.

• 53.9% of the credit would be received by taxpayers with income between $30,000 and $75,000. These taxpayers account for 40.5% of all taxpayers with a tax benefit.

• The average tax benefit increases from $6 for taxpayers with income below $5,000 to approximately $98 for taxpayers with income above $50,000.

• Over 99% of all taxpayers with income above $15,000 would have a tax benefit from the credit. Individuals who would not receive a benefit include taxfilers who do not have a tax liability under current law.

ATTACHMENT 2

Distribution of Tax Decrease Under a Proposal to Create a One-Time 10% Credit With a Maximum of $110 Married-Joint and $55 Single and Married-Separate
Alternative 2

Wisconsin Adjusted Gross Income	Taxpayers With a Tax Decrease: Count	Percent of Count	Amount of Tax Decrease	Percent of Amount	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under $5,000	41,500	2.2%	-$269,000	0.2%	-$6	363,200	11.4%
5,000 to 10,000	159,000	8.4	-1,864,000	1.4	-12	282,500	56.3
10,000 to 15,000	212,800	11.2	-6,004,000	4.6	-28	247,700	85.9
15,000 to 20,000	216,700	11.5	-10,208,000	7.8	-47	218,200	99.3
20,000 to 25,000	182,500	9.6	-10,647,000	8.1	-58	182,600	99.9
25,000 to 30,000	151,000	8.0	-10,714,000	8.2	-71	151,400	99.7
30,000 to 40,000	255,000	13.5	-21,922,000	16.8	-86	255,000	100.0
40,000 to 50,000	211,200	11.2	-20,625,000	15.8	-98	211,200	100.0
50,000 to 75,000	298,400	15.8	-31,235,000	23.9	-105	298,400	100.0
75,000 to 100,000	92,100	4.9	-9,793,000	7.5	-106	92,100	100.0
100,000 to 200,000	53,600	2.8	-5,644,000	4.3	-105	53,600	100.0
200,000 to 300,000	9,000	0.5	-947,000	0.7	-105	9,000	100.0
300,000 and Over	8,600	0.4	-900,000	0.7	-105	8,600	100.0
TOTALS	1,891,400	100.0%	-$130,772,000	100.0%	-$69	2,373,500	79.7%

SOURCE: 1995 Wisconsin Tax Sample

• Approximately 1.9 million taxpayers, or 79.7% of all taxpayers would receive a tax benefit from the credit.

• 56.5% of the credit would be received by taxpayers with income between $30,000 and $75,000. These taxpayers account for 40.5% of all taxpayers with a tax benefit.

• The average tax benefit increases from $6 for taxpayers with income below $5,000 to approximately $105 for taxpayers with income above $50,000.

• Over 99% of all taxpayers with income above $15,000 would have a tax benefit from the credit. Taxfilers who do not have a tax liability under current law would not benefit from the credit.

ATTACHMENT 3

Distribution of Tax Decrease Under a Proposal to Create a One-Time PTRC Equal to 15% of Property Taxes up to $3,000 in Taxes
Alternative 3

Wisconsin Adjusted Gross Income	Taxpayers With a Tax Decrease Count	Percent of Count	Amount of Tax Decrease	Percent of Amount	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under $5,000	3,000	0.2%	-$28,000	0.0%	-$9	363,200	0.8%
5,000 to 10,000	57,900	3.9	-1,454,000	0.9	-25	282,500	20.5
10,000 to 15,000	145,800	9.7	-6,644,000	4.2	-46	247,700	58.9
15,000 to 20,000	162,200	10.8	-10,713,000	6.8	-66	218,200	74.3
20,000 to 25,000	145,500	9.7	-10,748,000	6.8	-74	182,600	79.7
25,000 to 30,000	128,800	8.6	-10,476,000	6.6	-81	151,400	85.1
30,000 to 40,000	225,200	15.0	-20,476,000	13.0	-91	255,000	88.3
40,000 to 50,000	198,400	13.2	-22,558,000	14.3	-114	211,200	93.9
50,000 to 75,000	282,300	18.8	-43,337,000	27.5	-154	298,400	94.6
75,000 to 100,000	86,900	5.8	-16,758,000	10.6	-193	92,100	94.4
100,000 to 200,000	49,800	3.3	-10,723,000	6.8	-215	53,600	92.9
200,000 to 300,000	8,200	0.5	-1,898,000	1.2	-231	9,000	91.1
300,000 and Over	7,400	0.5	-1,779,000	1.1	-240	8,600	86.0
TOTALS	1,501,400	100.0%	-$157,592,000	100.0%	-$105	2,373,500	63.3%

SOURCE: 1995 Wisconsin Tax Sample

- Approximately 1.5 million taxpayers, or 63.3% of all taxpayers, would receive a tax benefit from the one-time PTRC.

- 65.4% of the credit would be received by taxpayers with income between $30,000 and $100,000. These taxpayers account for 52.8% of all taxpayers with a tax benefit.

- The average tax benefit increases from $9 for taxpayers with income below $5,000 to $240 for taxpayers with income above $300,000. The average tax benefit for all taxpayers would be $105.

- Over 74.3% of all taxpayers with income above $15,000 would have a tax benefit from the proposed credit. Taxpayers who do not pay property taxes or rent, taxfilers who do not have a tax liability under current law and some taxpayers who pay the alternative minimum tax would not benefit from the credit.

ATTACHMENT 4

Distribution of Tax Decrease Under a Proposal to Create a One-Time PTRC Equal to 20% of Property Taxes up to $2,000 in Taxes Alternative 4

	Taxpayers With a Tax Decrease						% of All
Wisconsin Adjusted Gross Income	Count	Percent of Count	Amount of Tax Decrease	Percent of Amount	Average Decrease	Count of All Returns	Returns in AGI Class
Under $5,000	3,000	0.2%	-$58,000	0.0%	-$19	363,200	0.8%
5,000 to 10,000	57,900	3.9	-2,448,000	1.2	-42	282,500	20.5
10,000 to 15,000	145,800	9.7	-10,953,000	5.4	-75	247,700	58.9
15,000 to 20,000	162,200	10.8	-17,402,000	8.5	-107	218,200	74.3
20,000 to 25,000	145,500	9.7	-17,041,000	8.3	-117	182,600	79.7
25,000 to 30,000	128,800	8.6	-16,003,000	7.8	-124	151,400	85.1
30,000 to 40,000	225,200	15.0	-30,651,000	15.0	-136	255,000	88.3
40,000 to 50,000	198,400	13.2	-30,885,000	15.1	-156	211,200	93.9
50,000 to 75,000	282,300	18.8	-49,731,000	24.3	-176	298,400	94.6
75,000 to 100,000	86,900	5.8	-16,416,000	8.0	-189	92,100	94.4
100,000 to 200,000	49,800	3.3	-9,639,000	4.7	-194	53,600	92.9
200,000 to 300,000	8,200	0.5	-1,607,000	0.8	-196	9,000	91.1
300,000 and Over	7,400	0.5	-1,462,000	0.7	-198	8,600	86.0
TOTALS	1,501,400	100.0%	-$204,296,000	100.0%	-$136	2,373,500	63.3%

SOURCE: 1995 Wisconsin Tax Sample

• Approximately 1.5 million taxpayers, or 63.3% of all taxpayers, would receive a tax benefit from the one-time PTRC.

• 62.4% of the credit would be received by taxpayers with income between $30,000 and $100,000. These taxpayers account for 52.8% of all taxpayers with a tax benefit.

• The average tax benefit increases from $19 for taxpayers with income below $5,000 to $198 for taxpayers with income above $300,000. The average tax benefit for all taxpayers would be $136.

• Over 74.3% of all taxpayers with income above $15,000 would have a tax benefit from the proposed credit. Taxpayers who do not pay property taxes or rent, taxfilers who do not have a tax liability under current law and some taxpayers who pay the alternative minimum tax would not benefit from the credit.

ATTACHMENT 5

Credit Amounts Under Current Law and Alternative One-Time PTRCs for Certain Property Tax Amounts

Property Tax	Current Law	Alternative 3	Alternative 4
$1,000	$100	$150	$200
1,100	110	165	220
1,200	120	180	240
1,300	130	195	260
1,400	140	210	280
1,500	150	225	300
1,600	160	240	320
1,700	170	255	340
1,800	180	270	360
1,900	190	285	380
2,000	200	300	400
2,100	200	315	400
2,200	200	330	400
2,300	200	345	400
2,400	200	360	400
2,500	200	375	400
2,600	200	390	400
2,700	200	405	400
2,800	200	420	400
2,900	200	435	400
3,000	200	450	400

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Individual Income Tax -- Indexing (General Fund Taxes)

CURRENT LAW

The current state individual income tax brackets, sliding scale standard deduction and tax credits are not indexed to adjust for inflation.

GOVERNOR

No provision.

DISCUSSION POINTS

Background

1. Chapter 1, Laws of 1979, provided for the annual adjustment of the individual income tax brackets to reflect increases in the consumer price index (CPI) to a maximum of 10%, rounded to the nearest $100. Specifically, changes were made based on changes in the U.S. CPI for all urban consumers, U.S. city average, between June of the current year and June of the previous year, as determined by the U.S. Department of Labor. Three indexing adjustments were made to the tax brackets: 10% in 1980, 9.6% in 1981, and 7.1% in 1982.

2. The 1983-85 biennial budget (1983 Wisconsin Act 27) modified the indexing provisions. First, indexing adjustments were suspended for the 1983, 1984 and 1985 tax years. Both the income tax brackets and standard deduction were to be adjusted when indexing was to resume in tax year 1986. Second, future increases were to be based on increases in CPI, minus

3%, to a maximum annual adjustment of 7%, in $10 increments. This indexing provision was deleted in 1987 Wisconsin Act 27 prior to being implemented.

3. Since state income tax brackets are not adjusted for inflation, an individual whose income keeps pace with inflation would move into a higher marginal tax bracket over time, and their standard deduction could be smaller as well, if they were in the phase-out range of income for the deduction. As a result, a larger portion of that person's income would be paid in taxes although their real income has not changed. In addition, fixed amounts such as the standard deduction and tax credits decrease in value in real terms.

4. Opponents of indexing argue that indexing could cause budgetary complications during periods of recession since income tax revenues would grow at a slower pace than without indexing. If the tax structure is indexed during a recession and certain program costs rise due to increased unemployment, additional funds may be needed for these programs.

5. At the federal level, the income tax brackets, standard deduction and personal exemption are adjusted annually for increases in inflation. Other components of the federal income tax, such as phase-out income limits for certain deductions and tax credits, are also indexed. In addition, of the 44 states that impose an income tax, seven (California, Maine, Michigan, Minnesota, Montana, Oregon and South Carolina) adjust the tax brackets, personal exemption or standard deduction for inflation. One state (Nebraska) indexes the personal exemption amounts only.

Current Individual Income Tax Structure

6. The current law sliding scale standard deduction formulas are shown below. The standard deduction is subtracted from Wisconsin adjusted gross income (AGI) to determine the amount of taxable income, or the amount of income actually subject to tax. The existing formulas for single, married-joint and married-separate taxpayers have been in effect since tax year 1988. The head-of-household standard deduction was provided beginning in tax year 1994.

Marital Status	Wisconsin AGI	Standard Deduction
Single	WAGI less than $7,500	$5,200
	WAGI between $7,500 and $50,830	$5,200 - [12.001% x (WAGI - $7,500)]
	WAGI greater than $50,830	$0
Married-Joint	WAGI less than $10,000	$8,900
	WAGI between $10,000 and $55,000	$8,900 - [19.778% x (WAGI - $10,000)]
	WAGI greater than $55,000	$0
Married-Separate	WAGI less than $4,750	$4,230
	WAGI between $4,750 and $26,140	$4,230 - [19.776% x (WAGI - $4,750)]
	WAGI greater than $26,140	$0
Head-of-Household	WAGI less than $7,500	$7,040
	WAGI between $7,500 and $25,000	$7,040 - [22.514% x (WAGI - $7,500)]
	WAGI greater than $25,000	Single Standard Deduction

The tax rates and brackets are applied to taxable income to calculate gross tax, which is the amount of tax prior to subtraction of the credits. The current law rates and brackets are outlined below. This structure has been in place since tax year 1987.

Taxable Income Bracket			Marginal
Single	Married-Joint	Married-Separate	Tax Rate
Less than $7,500	Less than $10,000	Less than $5,000	4.90%
7,500 to 15,000	10,000 to 20,000	5,000 to 10,000	6.55
15,000 and Over	20,000 and Over	10,000 and Over	6.93

The state's individual income tax generated $4.18 billion in 1995-96. Individual income tax collections are estimated to be $4.55 billion in 1996-97, $4.81 billion in 1997-98 and $5.07 billion in 1998-99.

Adjust Tax Structure for Changes in Inflation Beginning in Tax Year 1997

7. The following section shows the standard deduction formulas and income tax brackets if the standard deduction income amounts and maximum deduction amounts and the income tax brackets are adjusted for inflation beginning in tax year 1997. The adjustments reflect projected changes in the CPI, rounded to the nearest $10.

1997 Projection

Standard Deduction

Marital Status	Wisconsin AGI	Standard Deduction
Single	WAGI less than $7,700	$5,340
	WAGI between $7,700 and $52,150	$5,340 - [12.013% x (WAGI - $7,700)]
	WAGI greater than $52,150	$0
Married-Joint	WAGI less than $10,260	$9,130
	WAGI between $10,260 and $56,430	$9,130 - [19.775% x (WAGI - $10,260)]
	WAGI greater than $56,430	$0
Married-Separate	WAGI less than $4,870	$4,340
	WAGI between $4,870 and $26,820	$4,340 - [19.772% x (WAGI - $4,870)]
	WAGI greater than $26,820	$0
Head-of-Household	WAGI less than $7,700	$7,220
	WAGI between $7,700 and $25,650	$7,220 - [22.487% x (WAGI - $7,700)]
	WAGI greater than $25,650	Single Standard Deduction

Rate and Bracket Structure

Taxable Income Bracket			Marginal
Single	Married-Joint	Married-Separate	Tax Rate
Less than $7,700	Less than $10,260	Less than $5,130	4.90%
7,700 to 15,390	10,260 to 20,520	5,130 to 10,260	6.55
15,390 and Over	20,520 and Over	10,260 and Over	6.93

1998 Projection

Standard Deduction

Marital Status	Wisconsin AGI	Standard Deduction
Single	WAGI less than $7,900	$5,480
	WAGI between $7,900 and $53,510	$5,480 - [12.015% x (WAGI - $7,900)]
	WAGI greater than $53,510	$0
Married-Joint	WAGI less than $10,530	$9,370
	WAGI between $10,530 and $57,900	$9,370 - [19.78% x (WAGI - $10,530)]
	WAGI greater than $57,900	$0
Married-Separate	WAGI less than $5,000	$4,450
	WAGI between $5,000 and $27,520	$4,450 - [19.76% x (WAGI - $5,000)]
	WAGI greater than $27,520	$0
Head-of-Household	WAGI less than $7,900	$7,410
	WAGI between $7,900 and $26,320	$7,410 - [22.493% x (WAGI - $7,900)]
	WAGI greater than $26,320	Single Standard Deduction

Rate and Bracket Structure

Taxable Income Bracket			Marginal
Single	Married-Joint	Married-Separate	Tax Rate
Less than $7,900	Less than $10,530	Less than $5,270	4.90%
7,900 to 15,790	10,530 to 21,050	5,270 to 10,530	6.55
15,790 and Over	21,050 and Over	10,530 and Over	6.93

It is estimated that if the standard deduction and tax brackets shown above were in effect, individual income tax revenues would decrease by $28.0 million in tax year 1997 and by $60.0 million in tax year 1997. However, on a fiscal year basis, the revenue loss would be greater due to changes in the withholding tables. For example, the 1997-98 fiscal year would reflect the entire cost of indexing for tax year 1997, assuming an effective date after July 1, 1997. In addition, taxes withheld for the first half of tax year 1998 would affect revenues for the 1997-98 fiscal year. The cost for the 1998-99 fiscal year would include taxes withheld for the last half of tax year 1998, tax payments with returns for 1998 and withheld taxes for the first half of tax year 1999. As a result, the estimated cost of this proposal would be $55.0 million in 1997-98 and $78.0 million in 1998-99.

8. Attachment 1 shows distributional information on the effect of indexing on taxpayers in tax year 1998 if indexing was effective beginning in tax year 1997. The information is based on the 1995 Wisconsin tax sample, which has data from over 20,000 individual income tax returns, weighted to reflect all taxpayers in 1995. However, changes in the number of

taxpayers and the kinds and amounts of income they claim over time cannot be shown. To the extent possible, changes in tax laws between 1995 and later years have been included. The amounts shown in Attachment 1 and estimated fiscal effects differ because the attachment reflects 1995 data and the fiscal effects are for the 1997-99 biennium.

9. As indicated above, the cost of indexing the standard deduction and tax brackets for inflation would increase each year compared to current law. This occurs because, with each additional inflation adjustment, the difference between the current tax structure and the indexed tax structure becomes greater. Therefore, proposals to index the income tax have the effect of decreasing revenues immediately and reducing the future growth of tax collections. In essence, the fiscal effect of indexing compounds over time. In contrast, "one-time" changes, such as an across-the-board reduction in tax rates or an increase in the standard deduction, result in decreased tax revenues, but do not reduce the long-term growth rate of tax collections after the year of enactment.

10. The estimates presented in this paper reflect projections of inflation between 2.5% and 3.0% over the next several years. The cost of indexing would be higher in periods of high inflation. Likewise, if inflation is lower than projected, the cost of indexing would be reduced.

Index for Changes in Inflation Since the Current Structure was Implemented

11. A second option would be to index the tax structure for the total change in inflation that has occurred since the components of the tax were last modified. The projected sliding scale standard deduction and tax brackets under this alternative are outlined below.

Tax Year 1997 Projection

Standard Deduction

Marital Status	Wisconsin AGI	Standard Deduction
Single	WAGI less than $10,200	$7,070
	WAGI between $10,200 and $69,110	$7,070 - [12.001% x (WAGI - $10,200)]
	WAGI greater than $69,110	$0
Married-Joint	WAGI less than $13,600	$12,100
	WAGI between $13,600 and $74,780	$12,100 - [19.778% x (WAGI - $13,600)]
	WAGI greater than $74,780	$0
Married-Separate	WAGI less than $6,460	$5,750
	WAGI between $6,460 and $35,540	$5,750 - [19.773% x (WAGI - $6,460)]
	WAGI greater than $35,540	$0
Head-of-Household	WAGI less than $10,200	$9,570
	WAGI between $10,200 and $33,990	$9,570 - [22.510% x (WAGI - $10,200)]
	WAGI greater than $33,990	Single Standard Deduction

Rate and Bracket Structure

Taxable Income Bracket			Marginal
Single	Married-Joint	Married-Separate	Tax Rate
Less than $10,620	Less than $14,160	Less than $7,080	4.90%
10,620 to 21,230	14,160 to 28,310	7,080 to 14,160	6.55
21,230 and Over	28,310 and Over	14,160 and Over	6.93

1998 Projection

Standard Deduction

Marital Status	Wisconsin AGI	Standard Deduction
Single	WAGI less than $10,470	$7,250
	WAGI between $10,470 and $70,910	$7,250 - [11.995% x (WAGI - $10,470)]
	WAGI greater than $70,910	$0
Married-Joint	WAGI less than $13,950	$12,410
	WAGI between $13,950 and $76,720	$12,410 - [19.771% x (WAGI - $13,950)]
	WAGI greater than $76,720	$0
Married-Separate	WAGI less than $6,630	$5,900
	WAGI between $6,630 and $36,460	$5,900 - [19.779% x (WAGI - $6,630)]
	WAGI greater than $36,460	$0
Head-of-Household	WAGI less than $10,470	$9,820
	WAGI between $10,470 and $34,870	$9,820 - [22.528% x (WAGI - $10,470)]
	WAGI greater than $34,870	Single Standard Deduction

Rate and Bracket Structure

Taxable Income Bracket			Marginal
Single	Married-Joint	Married-Separate	Tax Rate
Less than $10,900	Less than $14,530	Less than $7,270	4.90%
10,900 to 21,790	14,530 to 29,050	7,270 to 14,530	6.55
21,790 and Over	29,050 and Over	14,530 and Over	6.93

12. The standard deduction formulas for 1997 reflect a 35.97% increase in the AGI and maximum deduction amounts; the tax brackets reflect a 41.55% increase. These increases are the cumulative adjustments attributable to changes in CPI since 1988 and 1987, respectively.

13. If the above standard deduction formulas and tax brackets were in effect for tax years 1997 and 1998, projected individual income tax revenues would be $616.0 million lower in 1997-98 and $502.8 million lower in 1998-99 than currently estimated. The 1997-98 projected cost would exceed the 1998-99 estimate because there would be a one-time cost associated with the large indexing adjustment for tax year 1997. Attachment 2 shows distributional information for tax year 1998 if the income tax structure was indexed for changes in inflation since the current tax structure was implemented.

Index Since the Current Structure was Implemented -- 1983 Act 27 Indexing Law

14. The following section describes the changes in the tax structure if the tax brackets and standard deduction would be adjusted for inflation using the indexing provisions established in 1983 Act 27 (based on increases in CPI, minus 3%, to a maximum annual adjustment of 7%, in $10 increments). For purposes of these estimates, the adjustments are made from the time the existing tax structure was first implemented. The standard deduction formulas for tax years 1997 and 1998 would be as shown below if they had been adjusted for inflation since 1988. The income tax brackets reflect increases since the current bracket structure was established in 1987. There would be no change between 1997 and 1998 because the expected change in the CPI is less than 3%.

Tax Years 1997 and 1998 Projections

Standard Deduction

Marital Status	Wisconsin AGI	Standard Deduction
Single	WAGI less than $7,910	$5,490
	WAGI between $7,910 and $53,620	$5,490 - [12.011% x (WAGI - $7,910)]
	WAGI greater than $53,620	$0
Married-Joint	WAGI less than $10,550	$9,390
	WAGI between $10,550 and $58,020	$9,390 - [19.781% x (WAGI - $10,550)]
	WAGI greater than $58,020	$0
Married-Separate	WAGI less than $5,010	$4,460
	WAGI between $5,010 and $27,580	$4,460 - [19.761% x (WAGI - $5,010)]
	WAGI greater than $27,580	$0
Head-of-Household	WAGI less than $7,910	$7,430
	WAGI between $7,910 and $26,370	$7,430 - [22.520% x (WAGI - $7,910)]
	WAGI greater than $26,370	Single Standard Deduction

Rate and Bracket Structure

Taxable Income Bracket			Marginal
Single	Married-Joint	Married-Separate	Tax Rate
Less than $8,000	Less than $10,670	Less than $5,330	4.90%
8,000 to 16,000	10,670 to 21,330	5,330 to 10,670	6.55
16,000 and Over	21,330 and Over	10,670 and Over	6.93

15. The standard deduction formulas reflect a 5.49% increase and the tax brackets reflect a 6.65% increase. The 5.49% and 6.65% increases are the cumulative adjustments attributable to changes in CPI that exceed 3% since 1988 and 1987, respectively. Since 1991, the annual increases in the CPI have been less than 3%.

16. It is estimated that if the above standard deduction formulas and tax brackets were in effect for tax years 1997 and 1998, individual income tax revenues would be $93.1 million lower in 1997-98 and $68.4 million lower in 1998-99 than currently estimated. The fiscal estimate is lower in 1998-99 than in 1997-98 under this alternative because it is projected that there would be no indexing adjustment in tax years 1998 and 1999. Attachment 3 shows distributional information, from the 1995 sample, for tax year 1998 if the tax structure were adjusted for changes in inflation, using the 1983 Act 27 indexing provisions, since the current tax structure was implemented.

17. By adjusting the tax structure for changes in inflation that exceed 3%, the tax structure would not change during periods of low inflation, which is currently the case. During

periods when inflation exceeds 3% per year, inflation adjustments would only reflect increases in the CPI that exceed 3%. On the other hand, limiting the adjustment to a maximum of 7% slows the rate of indexing, and corresponding reduction in revenue growth, during periods of high inflation.

18. Economists have reported that the CPI may overstate changes in the cost of living. The projected bias has ranged greatly, although an advisory commission appointed by the U.S. Senate Finance Committee has estimated that the CPI has had a bias of 1.5% in recent years and has projected a bias of 1% in the future. As a result of the commission's findings, the Bureau of Labor Statistics, in the U.S. Department of Labor, has adopted the production of a cost-of-living index as an objective in measuring consumer prices. The intent of the cost-of-living index would be to more accurately reflect improvements in the quality of items purchased and changes in consumer buying patterns.

19. Based on the commission's findings, subtracting some amount (such as 3%) from CPI when making an inflation adjustment could be viewed as appropriate. However, such an approach could also warrant review in the future when the Bureau of Labor Statistics begins to produce a cost-of-living index.

20. Another option would be to begin indexing the standard deduction and tax brackets for changes in inflation in tax year 1997, using the 1983 indexing law (CPI, minus 3%, to a maximum annual adjustment of 7%, in $10 increments). However, since inflation is currently projected to be less than 3% for 1997 and 1998, there would be no impact on revenues in the 1997-99 biennium.

Adjust Income Tax Credits for Changes in Inflation

21. The state provides a number of tax credits that are based on statutorily set dollar amounts. These amounts could also be indexed for changes in inflation beginning in tax year 1997. Credits are subtracted from gross tax to determine net tax liability. The following points briefly describe the credits that could be indexed for changes in inflation. If all of the credits were adjusted for inflation, revenues would be reduced by an estimated $6.4 million in 1997-98 and $13.7 million in 1998-99, assuming no other changes to the tax structure. The cost of indexing all of these credits is lower than the sum of the costs of indexing individual credits, because there would be additional unused credits if all of the credits were indexed.

• Dependent Credit. A $50 credit has been provided for each dependent since 1986. If indexed for inflation, the credit would be $51 in 1997 and $52 in 1998. This would increase the cost of the credit by an estimated $1.2 million in 1997-98 and $2.7 million in 1998-99.

• Senior Credit. Since 1986, a $25 credit has been allowed for taxpayers age 65 or older. The credit would be $26 in 1997 and $27 in 1998 if adjusted annually for inflation. This would increase the cost by an estimated $300,000 in 1997-98 and $700,000 in 1998-99.

• Married Couple Credit. Two-earner married couples are eligible for a married couple credit equal to 2% of the earned income of the secondary wage earner, up to a maximum of $15,000 in income (the current maximum income amount has been in place since 1989). The maximum credit is $300. The maximum income amount could be indexed and would equal $15,390 in 1997 and $15,790 in 1998; the maximum credit would equal $308 in 1997 and $316 in 1998. This would increase the cost of the credit by an estimated $2.7 million in 1997-98 and $5.5 million in 1998-99.

• Property Tax/Rent Credit. A property tax/rent credit (PTRC) equal to 10% of property taxes, or rent constituting property taxes, paid on a principal residence up to a maximum amount of property taxes of $2,000 is provided (the $2,000 maximum was established in 1987); the maximum credit is $200. If the maximum property tax amount were adjusted for inflation it would equal $2,050 in 1997 and $2,100 in 1998; the maximum credit would be $205 in 1997 and $210 in 1998. This would increase the cost of the credit by an estimated $2.7 million in 1997-98 and $5.5 million in 1998-99.

• Itemized Deduction Tax Credit. The itemized deduction credit is 5% of the difference between allowable itemized deductions and the standard deduction; the credit would be adjusted for inflation indirectly if the standard deduction is indexed. Because indexing would increase the amount of the standard deduction, the cost of the itemized deduction credit would decline.

ALTERNATIVES TO BILL

1. Index the standard deduction and income tax brackets for changes in inflation beginning in tax year 1997. This would decrease general fund tax collections by an estimated $55.0 million in 1997-98 and by $78.0 million in 1998-99.

Alternative 1	GPR
1997-99 REVENUE (Change to Bill)	- $133,000,000

2. Index the income tax structure for changes in inflation since 1987 for the income tax brackets and since 1988 for the standard deduction. This would decrease general fund tax collections by an estimated $616.0 million in 1997-98 and $502.8 million in 1998-99.

Alternative 2	GPR
1997-99 REVENUE (Change to Bill)	- $1,118,800,000

3. Index the income tax structure for changes in inflation exceeding 3%, but not more than 7%, since 1987 for the income tax brackets and since 1988 for the standard deduction. This would decrease estimated general fund tax collections by $93.1 million in 1997-98 and $68.4 million in 1998-99.

Alternative 3	GPR
1997-99 REVENUE (Change to Bill)	- $161,500,000

4. Index the income tax structure for changes in inflation exceeding 3%, but not more than 7%, beginning in tax year 1997. This alternative is estimated to have no impact on revenues in the 1997-99 biennium since inflation is currently projected to be less than 3% for tax years 1997 through 1999.

5. Index one or all of the following tax credits for changes in inflation beginning in tax year 1997. The fiscal effects for these options assume that the rest of the tax structure would not be modified. The fiscal impact of indexing individual credits would decline if other indexing adjustments were also adopted.

a. Index the $50 dependent credit.

Alternative 5a	GPR
1997-99 REVENUE (Change to Bill)	- $3,900,000

b. Index the $25 senior credit.

Alternative 5b	GPR
1997-99 REVENUE (Change to Bill)	- $1,000,000

c. Index the $15,000 maximum income amount for the married couple credit.

Alternative 5c	GPR
1997-99 REVENUE (Change to Bill)	- $8,200,000

d. Index the $2,000 maximum property tax amount for the PTRC.

Alternative 5d	**GPR**
1997-99 REVENUE (Change to Bill)	- $8,200,000

Prepared by: Kelsie Doty

MO#________________

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE _____ NO _____ ABS ___

ATTACHMENT 1

Distribution of Taxpayers with a Tax Decrease in 1998 Under an Alternative to Index for Inflation Beginning in 1997

Wisconsin Adjusted Gross Income	Taxpayers With a Tax Decrease: Count	Percent of Count	Amount of Tax Decrease	Percent of Amount	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under $5,000	12,800	0.7%	-$54,000	0.1%	-$4	363,200	3.5%
5,000 to 10,000	161,000	8.6	-2,267,000	4.6	-14	282,500	57.0
10,000 to 15,000	212,500	11.4	-4,844,000	9.8	-23	247,700	85.8
15,000 to 20,000	216,400	11.6	-6,724,000	13.6	-31	218,200	99.2
20,000 to 25,000	182,500	9.8	-6,504,000	13.2	-36	182,600	99.9
25,000 to 30,000	151,000	8.1	-5,384,000	10.9	-36	151,400	99.7
30,000 to 40,000	255,000	13.7	-9,301,000	18.8	-36	255,000	100.0
40,000 to 50,000	211,200	11.4	-6,968,000	14.1	-33	211,200	100.0
50,000 to 75,000	298,200	16.0	-5,399,000	10.9	-18	298,400	99.9
75,000 to 100,000	92,000	4.9	-1,152,000	2.3	-13	92,100	99.9
100,000 to 200,000	53,400	2.9	-666,000	1.3	-12	53,600	99.6
200,000 to 300,000	8,800	0.5	-110,000	0.2	-13	9,000	97.8
300,000 and Over	8,100	0.4	-100,000	0.2	-12	8,600	94.2
TOTALS	1,862,900	100.0%	-$49,473,000	100.0%	-$27	2,373,500	78.5%

SOURCE: 1995 Wisconsin Tax Sample

- Approximately 1,862,900 taxpayers, or 78.5% of all taxpayers, would have a tax decrease under this alternative.

- Most of the tax decrease (81.5%) would be received by taxpayers with AGI between $15,000 and $75,000. These individuals make up 70.6% of the total count of taxpayers with a tax decrease.

- The average tax decrease would range from $4 for taxpayers with income below $5,000 to $36 for taxpayers with income between $20,000 and $40,000. Overall, the average tax decrease would be $27.

- Over 99% of all taxpayers with income between $15,000 and $200,000 would have a tax benefit under the alternative. The taxpayers who would not receive a benefit from indexing include people who have no tax liability under current law, those who pay the alternative minimum tax or certain individuals who can be claimed as a dependent on another taxpayer's return.

ATTACHMENT 2

Distribution of Taxpayers with a Tax Decrease in 1998
Under an Alternative to Index Since the Current Tax Structure was Implemented

Wisconsin Adjusted Gross Income	Taxpayers With a Tax Decrease: Count	Percent of Count	Amount of Tax Decrease	Percent of Amount	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under $5,000	16,200	0.9%	-$328,000	0.1%	-$20	363,200	4.5%
5,000 to 10,000	162,600	8.7	-11,489,000	3.0	-71	282,500	57.6
10,000 to 15,000	213,300	11.4	-26,522,000	6.9	-124	247,700	86.1
15,000 to 20,000	216,800	11.6	-45,037,000	11.6	-208	218,200	99.4
20,000 to 25,000	182,500	9.8	-45,940,000	11.9	-252	182,600	99.9
25,000 to 30,000	151,000	8.1	-41,691,000	10.8	-276	151,400	99.7
30,000 to 40,000	255,000	13.6	-76,209,000	19.7	-299	255,000	100.0
40,000 to 50,000	211,200	11.3	-61,525,000	15.9	-291	211,200	100.0
50,000 to 75,000	298,200	15.9	-60,559,000	15.6	-203	298,400	99.9
75,000 to 100,000	92,000	4.9	-9,908,000	2.6	-108	92,100	99.9
100,000 to 200,000	53,400	2.9	-5,706,000	1.5	-107	53,600	99.6
200,000 to 300,000	8,800	0.5	-941,000	0.2	-107	9,000	97.8
300,000 and Over	8,100	0.4	-860,000	0.2	-106	8,600	94.2
TOTALS	1,869,100	100.0%	-$386,715,000	100.0%	-$207	2,373,500	78.7%

SOURCE: 1995 Wisconsin Tax Sample

• Approximately 1,869,100 taxpayers, or 78.7% of all taxpayers, would have a tax decrease under the alternative.

• 85.5% of the tax decrease would be received by taxpayers with AGI between $15,000 and $75,000. These individuals make up 70.3% of the total count of taxpayers with a tax decrease.

• The average tax decrease would range from $20 for taxpayers with income below $5,000 to $299 for taxpayers with income between $30,000 and $40,000. The average tax decrease for all taxpayers would be $207.

• Over 99% of all taxpayers with income between $15,000 and $200,000 would have a tax benefit under the alternative. The taxpayers who would not receive a benefit from indexing include people who have no tax liability under current law, those who pay the alternative minimum tax or certain individuals who can be claimed as a dependent on another taxpayer's return.

ATTACHMENT 3

Distribution of Taxpayers with a Tax Decrease in 1998 Under an Alternative to Index Since the Current Tax Structure was Implemented Using the 1983 Law

	Taxpayers With a Tax Decrease						% of All
Wisconsin Adjusted Gross Income	Count	Percent of Count	Amount of Tax Decrease	Percent of Amount	Average Decrease	Count of All Returns	Returns in AGI Class
Under $5,000	12,800	0.7%	-$57,000	0.1%	-$4	363,200	3.5%
5,000 to 10,000	161,000	8.6	-2,348,000	4.3	-15	282,500	57.0
10,000 to 15,000	212,400	11.4	-5,119,000	9.3	-24	247,700	85.7
15,000 to 20,000	216,400	11.6	-7,239,000	13.2	-33	218,200	99.2
20,000 to 25,000	182,500	9.8	-7,129,000	13.0	-39	182,600	99.9
25,000 to 30,000	151,000	8.1	-5,929,000	10.8	-39	151,400	99.7
30,000 to 40,000	255,000	13.7	-10,319,000	18.8	-40	255,000	100.0
40,000 to 50,000	211,200	11.4	-7,821,000	14.2	-37	211,200	100.0
50,000 to 75,000	298,200	16.0	-6,466,000	11.8	-22	298,400	99.9
75,000 to 100,000	92,000	4.9	-1,456,000	2.6	-16	92,100	99.9
100,000 to 200,000	53,400	2.9	-843,000	1.5	-16	53,600	99.6
200,000 to 300,000	8,800	0.5	-139,000	0.2	-16	9,000	97.8
300,000 and Over	8,100	0.4	-127,000	0.2	-16	8,600	94.2
TOTALS	1,862,800	100.0%	-$54,992,000	100.0%	-$30	2,373,500	78.5%

SOURCE: 1995 Wisconsin Tax Sample

• Approximately 1,862,800 taxpayers, or 78.5% of all taxpayers, would have a tax decrease under the alternative.

• 81.8% of the tax decrease would be received by taxpayers with AGI between $15,000 and $75,000. These individuals make up 70.6% of the total count of taxpayers with a tax decrease.

• The average tax decrease would range from $4 for taxpayers with income below $5,000 to $40 for taxpayers with income between $30,000 and $40,000. The average tax decrease for all taxpayers would be $30.

• Over 99% of all taxpayers with income between $15,000 and $200,000 would have a tax benefit under the alternative. The taxpayers who would not receive a benefit from indexing include people who have no tax liability under current law, those who pay the alternative minimum tax or certain individuals who can be claimed as a dependent on another taxpayer's return.

Senator Wineke

GENERAL FUND TAXES/LITIGATION

Motion:

Move to delete the following items from motion #9700.

Department of Revenue		
Information Technology	$1,370,700	GPR
	-440,100	GPR-REV
Integrated Tax System	1,460,600	GPR
Information Technology Migration	1,122,900	GPR
General Fund Taxes		
IRC Update	-6,000,000	GPR-REV
Long-Term Care Insurance Deduction	-3,000,000	GPR-REV
Working Families Tax Credit	-25,300,000	GPR-REV
Credit for Sales Tax on Manufacturing Electricity	-1,800,000	GPR-REV
Sales Tax Exemption for Samples of Drugs to Physicians	-530,000	GPR-REV
Sales Tax for Raw Materials Used in Printing	-800,000	GPR-REV
Pension Litigation		
Shift of School Equalization Aids Payment	-50,000,000	GPR
Other	8,000,000	GPR-REV

In addition, increase the cigarette tax to 62¢ effective July 1, 1998, and transfer, on a one-time basis, $25 million of 1997-98 school aid payments to July 1, 1998.

MO# 9703

BURKE	Y	N	A
DECKER	Y	N	A
2 GEORGE	Y	N	A
JAUCH	Y	N	A
1 WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 3 NO 13 ABS 0

Motion #9703

Senator Burke
Representative Jensen

GENERAL FUND TAXES/LITIGATION

Motion:

Move to modify the bill as follows:

a. **SIPD Lawsuit Settlement:**

(1) Create a one-time GPR sum certain appropriation under the Department of Employe Trust Funds (ETF) to pay the costs of the special investment performance dividend (SIPD) lawsuit settlement agreement and provide $215,000,000 GPR in 1997-98 for this purpose. Provide that the appropriation sunset on June 30, 1998.

(2) Increase estimated expenditures from ETF's retired employes benefits supplement sum sufficient appropriation by $2,022,900 GPR in 1997-98 and $2,733,100 GPR in 1998-99 to fund the resumption of supplemental benefits on November 1, 1997, to annuitants retiring before October 1, 1974.

(3) Provide $1,000,000 GPR annually in the Committee's supplemental GPR appropriation for possible release to a new appropriation to be created by separate legislation dealing with additional supplemental payments to certain annuitants who may receive a reduction in their current annuity level as a result of the provisions of the lawsuit settlement.

b. **Information Technology Funding (Paper #714, Alternative 6):** Delete the Governor's recommendation, but provide expenditure authority for existing program revenue appropriations. Also, provide GPR funding for all of the following projects:

	1997-98	1998-99
Current Masterlease		
Milwaukee Refund Inquiry	$16,000	$16,000
PC Hardware and Software	88,800	88,800
Total Masterlease	$104,800	$104,800
IT Projects		
IT Training Center	$3,500	$27,800
Wang to Word	163,400	184,900
Applications Development	25,000	0
IT Migration	300,000	300,000
Forms Production	15,000	2,300
Total IT Projects	$506,900	$515,000
Total	$611,700	$619,800

c. **Revenue Field Auditors (Paper #100)**

Revenue Field Auditors (Alternative 4)

Modify the Governor's recommendation to provide $590,400 GPR in 1997-98 and $658,800 GPR in 1998-99 and 12.0 revenue auditors beginning in 1997-98. Estimate additional general fund revenues of $8,400,000 in 1998-99 due to the additional audit activities. In addition, require DOR to prepare a report for the Committee on the activities of the new auditors, the amount of revenue that was generated by the additional staff and an analysis of the amount that could be generated by further increases to the audit staff. Specify that the report would be due on January 1, 2000.

Individual Income Tax Audit Software (Alternative 1)

Provide $105,000 GPR in 1997-98 and $80,000 GPR in 1998-99 to purchase individual income tax software. Estimate additional general fund revenues of $2 million annually.

d. **Integrated Tax System (Paper #101, Alternative 1):** Provide $1,257,100 GPR in 1997-98 and $203,500 in 1998-99 for DOR to contract with a private vendor to develop and implement an integrated tax processing system in the Department. Place the funding in the Joint Committee on Finance's supplemental appropriation. Require the Department to submit a plan for development of an integrated tax system to the Committee for its approval before the funding can be released from the Committee's appropriation.

e. **Sales Tax Agreements With Direct Marketers (Paper #102, Alternative 2a and 2b):** Adopt the Governor's recommendation with the following modifications: (a) remove specific references to tax collections and quarterly payments. This alternative would provide broader authority for DOR to enter into agreements with direct marketers about state and local sales and use taxes; and (b) specify that DOR could not implement any sales and use tax agreement if the terms of the agreement do not conform to state law.

f. **Sales Tax on Coin-Operated Laundries (Paper #104, Alternative 3):** Maintain current law.

g. **Sales Tax on Telephone Answering Services (Paper #105, Alternative 3):** Adopt the Governor's recommendation with modifications to: (a) impose the sales tax on services that consist of "recording telecommunications messages" rather than "taking messages by telephone"; (b) delete the portion of the bill that would impose the tax on services that consist of recording messages for a particular person into a central computer data base and activating those messages for that person when the computer is accessed for the messages; (c) specify that the exclusion for services that are incidental to another service would apply only if the other service is not taxable; and (d) provide a cross reference to clarify that the current definition of "incidental" under the sales tax statutes would apply to this provision. A specific exclusion for burglar alarm and security monitoring services would not be provided. This option would increase revenues by $1,100,000 in 1997-98 and $1,500,000 in 1998-99.

h. **Sales Tax on Fabricated Building Units and Manufactured Buildings (Paper #106, Alternative 1):** Adopt the Governor's recommendation to modify the definition of real property construction activities and to allow retailers of certain manufactured buildings to exclude a portion of the gross receipts and sales price of such buildings from the sales tax. Specifically, the retailer would have the option to exclude either: (a) 35% of the gross receipts or sales price; or (b) an amount equal to the gross receipts or sales price minus the cost of the materials that become an ingredient or component part of the building.

In addition, reestimate the fiscal effect to be a revenue loss of $830,000 in 1997-98 and $1,130,000 in 1998-99. These amounts exceed the decrease estimated in the bill by $130,000 in the first year and $230,000 in the second year.

i. **Sales Tax on University Food Contracts (Paper #107, Alternative 2):** Modify the current sales tax exemption for meals, food, food products and beverages furnished in accordance with any contract or agreement by a public or private institution of higher education to provide the exemption only if these items are furnished for purposes that are consistent with the institution's educational mission. In addition, provide that the exemption could not be used for purchases of meals by faculty members and specify that this provision would take effect on the day after publication of the bill, and first apply to contracts entered into on or after that date. This alternative would increase sales tax revenues by a minimal amount in 1997-98 and an estimated $100,000 in 1998-99.

j. **Reestimate Funding for the Earned Income Tax Credit (Paper #108, Reestimate):** Reestimate funding for the earned income tax credit at $78.7 million in 1997-98 and $88.2 million in 1998-99. These amounts exceed the base funding level by $21,700,000 in the first year and $31,200,000 in the second year. Compared to the bill, the revised estimates would increase funding by $3,200,000 in 1997-98 and $200,000 in 1998-99.

k. **Individual Income Tax Treatment of Nonresidents and Part-Year Residents (Paper #109, Alternative 2):** Delete the bill provision and adopt DOR's recommendation to prorate the income tax brackets for nonresident and part-year resident taxpayers, based on the ratio of Wisconsin AGI to federal AGI, effective January 1, 1997.

l. **Internal Revenue Code Update (Paper #110, Alternative 1):** Adopt the provisions requested by the Department of Revenue to update state tax references to the federal Internal Revenue Code in effect as of December 31, 1996. In addition, repeal the current statutory provisions regarding the state medical savings account program.

m. **Minor Policy and Technical Changes -- Tax Appeals Commission Filing Fee (Paper #111, Reestimate):** Increase GPR-Earned by $9,500 annually for Tax Appeals Commission filing fees.

n. **Utility Tax on Personal Communications Services (Paper #113, Alternatives 1 and 2):** Adopt the Governor's recommendation to specify that the transitional adjustment fee would be imposed on persons that provide commercial mobile service (as defined by federal law) with a modification to specify that only persons licensed by the FCC to provide commercial mobile service would be subject to the transition fee.

Adopt the modification requested by the Department of Revenue to specify that, if an interexchange company also provides commercial mobile service, the revenues used to calculate the transition fee would be limited to the person's activities as a commercial mobile service provider.

o. **Revised Definition of Cellular Mobile Radio Telecommunications Utility**: Modify the current definition of a cellular mobile radio telecommunications utility ["a person authorized by the Federal Communications Commission to provide domestic cellular radio telecommunications service under 47 USC 154(i)"] to newly specify that such a utility would be a person authorized by the Federal Communications Commission to provide domestic commercial cellular radio telecommunications service under 47 USC 154(i).

p. **Minor Policy and Technical Changes -- Use Tax on Automobiles Used by Dealers (Paper #114, Modification):** Define "actively participates" for purposes of this provision to mean the sole proprietor, partner, subchapter S shareholder, or LLC member performs services for the motor vehicle dealership, such as sales, accounting, management and consulting, for more than 500 hours in a taxable year for which such person receives compensation. "Actively participate" would not include services performed only in the capacity of an investor such as studying and reviewing financial statements or reports on operation of the business, preparing or compiling summaries or analyses of finances of the business for the investor's own use, or monitoring the finances or operations of the activity in a non-managerial capacity.

In addition, modify the language to read "day-to-day" rather than "daily" operation of the dealership.

q. **Increase Cigarette Tax (Paper #115):** Increase the cigarette tax rate by an additional 11¢ from the Governor's recommendation. The total tax rate would be 60¢ per pack effective on the first day of the second month after publication of the budget act or September 1, 1997, whichever is earlier.

r. **Cigarette Discount Rate**: Reduce the manufacturers' and distributors' cigarette stamp discount percentage from 2.0% to 1.6% effective September 1, 1997.

s. **Individual Income Tax -- Long-Term Care Insurance Deduction**: Create an income tax deduction for premium costs paid by taxpayers for long-term care insurance beginning in tax year 1998. Prohibit the premium costs for long-term insurance from being included as an itemized deduction for purposes of calculating the itemized deduction tax credit.

t. **Credit for Sales Tax on Fuel and Electricity Used in Manufacturing**: Provide, for tax years beginning on or after January 1, 1998, the tax credit for sales taxes on fuel and electricity used in manufacturing under the individual income tax to allow owners, partners and shareholders of businesses organized as sole proprietorships, partnerships, and tax-option corporations, respectively, to claim the credit. Require shareholders in tax-option corporations and partners to claim the credit in proportion to the ownership interest of each shareholder or partner. Require the tax-option corporation or partnership to calculate the amount of credit which could be claimed by each shareholder or partner and provide that information to the individual. Provide that the credit could only be claimed against the tax imposed on the business operations of the claimant in which the fuel and electricity are consumed and, for shareholders and partners, the credit could only be claimed against their pro-rated share of income. Provide that, if the credit is not offset against income tax liability for the current year, the owner, partner or shareholder of the business may carry forward the remaining credit for up to 15 years to offset future tax liability.

u. **Supplement to Federal Historic Rehabilitation Credit**: Provide that qualified rehabilitation expenditures would be eligible for the state supplement to the federal historic rehabilitation credit if either the physical work of construction or destruction in preparation for construction begins after December 31, 1988.

v. **Tax Administration**: Modify the Governor's recommendation to provide $590,400 GPR in 1997-98 and $658,800 GPR in 1998-99 and 12.0 revenue auditors (instead of 5.0 positions) beginning in 1997-98. Estimate additional general fund revenues of $8,400,000 in 1998-99 due to the additional audit activities (instead of $3,500,000). In addition, require DOR to prepare a report for the Committee on the activities of the new auditors, the amount of revenue that was generated by the additional staff and an analysis of the amount that could be generated by further increases to the audit staff. Specify that the report would be due on January 1, 2000.

Provide $105,000 GPR in 1997-98 and $80,000 GPR in 1998-99 to purchase individual income tax software.

Provide $1,257,100 GPR in 1997-98 and $203,500 in 1998-99 for DOR to contract with a private vendor to develop and implement an integrated tax processing system in the Department. Place the funding in the Joint Committee on Finance's supplemental appropriation. Require the Department to submit a plan for development of an integrated tax system to the Committee for its approval before the funding can be released from the Committee's appropriation.

Increase the funding for the Department of Revenue by $26,200 GPR in 1997-98 and $1,096,700 GPR in 1998-99 for computer hardware and software to implement the Department's information technology migration (IT) plan.

w. **Adopt Federal Regulations for Single-Owner Entities and Impose Restrictions on Withdrawals from LLCs by Certain Members:**

Single-Owner Entities. Move to adopt federal regulations that allow single-owner entities to be disregarded as a separate entity for federal income tax purposes to be disregarded for state tax purposes, unless the entity elects to be taxed as a corporation. Specify that the owner would be subject to the tax on the entity's income. Provide that if a partnership is the owner of a disregarded single-owner entity, the entity's information would be included on the owner's statement that is required to be filed with the Department of Revenue (DOR).

Provide that, for withholding purposes, the owner, not the entity, would be the "employer" in a single-owner entity that is disregarded as a separate entity under the internal revenue code (IRC).

Specify that, for purposes of a business registration certificate under the Tax Appeals Commission provisions, the person is the owner in the case of a single-owner entity that is disregarded as a separate entity under the IRC. Provide that "person" includes the owner of a single-owner entity that is disregarded as a separate entity under the IRC under the sales and use tax provisions. Specify that, for purposes of the sales tax return that is required to be filed by a seller, if a single-owner entity is disregarded as a separate entity under the IRC, the information from that entity would be included on its owner's return.

Specify that a single-owner entity that is disregarded as a separate entity for state income and franchise tax purposes, would be disregarded as a separate entity for purposes of the temporary recycling surcharge. Provide that the information from that entity be included in computing the surcharge on the owner's return. Include an entity treated as a partnership under the IRC under the definition of partnership for purposes of the temporary recycling surcharge and alcohol beverages tax.

Define partnership, for state income and franchise tax purposes, to include limited liability companies (LLCs) and other entities that are treated as partnerships under the IRC. Specify that partnership does not include publicly traded partnerships treated as corporations for state corporate tax purposes. Modify the definition of corporation to include any other entities treated as corporations under the classification election regulations of the IRC. Specify that a single-owner entity that is disregarded as a separate entity under the IRC would be disregarded as a separate entity for state corporate tax purposes and its owner would be subject to tax on the entity's income.

LLC Gift Memberships. Specify that if an LLC member acquired an interest for no or nominal consideration, the member may withdraw from the LLC only in accordance with the operating agreement and only at the time or upon the occurrence of an event specified in the operating agreement. Provide that if the operating agreement does not specify such time or event, the member may not withdraw, prior to dissolution and commencement of winding up, without the written consent of all members of the LLC.

Specify that these provisions would take effect beginning with taxable years on or after January 1, 1997.

x. **Miscellaneous Tax Provisions**: Create an exemption from the sales and use tax for medicines furnished without charge to a physician, surgeon, nurse anesthetist, advance practice nurse, osteopath, dentist, podiatrist or optometrist if the medicine may not be dispensed without a prescription. Specify that the exemption would take effect on the first day of the second month beginning after publication of the bill.

Create a sales and use tax exemption for raw materials used for the processing, fabricating or manufacture of, or the attachment to or incorporation into, printed materials that are transported and used solely outside the state. Repeal the current provision which excludes from the definition of taxable "storage" keeping, retaining or exercising any right or power over raw materials by a publisher or printer of printed materials for processing or fabricating or for manufacturing into, attachment to or incorporation into printed materials to be transported, and thereafter used solely, outside this state. Specify that these provisions would take effect on the first day of the second month beginning after publication of the bill.

y. **Exclusion for Capital Gains on Business Assets Sold to Family Members**: Provide a complete exclusion for long-term capital gains realized on the sale of business assets and assets used in farming to a family member that were held for more than one year, including gains on property used in the ordinary course of business as defined under the internal revenue code, effective January 1, 1999. Provide that farm assets would include shares in a corporation or trust that meets the same standards that currently allow a corporation or trust to carry on farming operations in the state. Specify that an eligible family member would include a person who is related by blood, marriage or adoption within the 3rd degree of kinship. Provide that amounts treated as ordinary income for federal tax purposes because of the recapture of depreciation or for any other reason would not be included in this provision. Specify that the capital gains exclusion under this provision would be applied after all capital gains and losses have been netted.

z. **Working Families Tax Credit**: Create a nonrefundable credit equal to a taxpayer's net tax liability for taxpayers with adjusted gross income up to $18,000 if married-joint and $9,000 if single or married-separate, effective with tax year 1998. Provide that the credit would phase out over the next $1,000 of income. Specify that only full-year resident taxpayers and taxpayers who can not be claimed as a dependent on another taxpayer's return would be eligible for the credit.

aa. **Delay School Aid Payment:** Delay payment of $50 million of general equalization aids in 1997-98 to the fourth Monday in July of the following year on a permanent basis, which would be reflected in the four quarterly payments to school districts. Specify that school districts would record this July aid payment as if it were received in the prior fiscal year.

Note:

The following table outlines the biennial fiscal estimates for these provisions compared to the bill. The figures for the increased cigarette tax are compared to the 52.5¢ tax rate already adopted by the Committee.

MO# 9700

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
1 JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 11 NO 5 ABS 0

Senator Wineke

GENERAL FUND TAXES

Individual Income Tax -- Alternative Tax Structure

Motion:

Move to modify the calculation of Wisconsin adjusted gross income (AGI), the sliding scale standard deduction, the rate and bracket structure and the tax credits, effective January 1, 1997, as follows:

Capital Gains and Social Security Benefits. Federalize the tax treatment of capital gains and losses and the treatment of social security benefits.

Sliding Scale Standard Deduction. Modify the sliding scale standard deduction formulas as shown below for tax year 1997. Index the maximum deduction amounts and AGI amounts for changes in the consumer price index (CPI) beginning with tax year 1999.

Marital Status	Wisconsin AGI	Standard Deduction
Single	AGI less than $10,000	$7,500
	AGI between $10,000 and $50,830	$7,500 - [18.369% x (AGI - $10,000)]
	AGI greater than $50,830	$0
Married-Joint	AGI less than $15,000	$10,000
	AGI between $15,000 and $55,000	$10,000 - [25% x (AGI - $15,000)]
	AGI greater than $55,000	$0
Married-Separate	AGI less than $7,130	$4,750
	AGI between $7,130 and $26,140	$4,750 - [24.987% x (AGI - $7,130)]
	AGI greater than $26,140	$0
Head-of-Household	AGI less than $10,000	$10,160
	AGI between $10,000 and $25,000	$10,160 - [36.102% x (AGI - $10,000)]
	AGI greater than $25,000	Single Standard Deduction

Rates and Brackets. Create and a fourth and fifth tax bracket and modify the rates as shown below for tax year 1997. Index the bracket amounts for changes in the CPI beginning with tax year 1999.

Taxable Income Bracket			Marginal
Single	Married-Joint	Married-Separate	Tax Rate
Less than $7,500	Less than $10,000	Less than $5,000	4.0%
7,500 to 15,000	10,000 to 20,000	5,000 to 10,000	5.0
15,000 to 45,000	20,000 to 60,000	10,000 to 30,000	6.0
45,000 to 60,000	60,000 to 80,000	30,000 to 40,000	7.0
60,000 and Over	80,000 and Over	40,000 and Over	8.0

Tax Credits. Eliminate the dependent credit, senior credit, married couple credit and the property tax/rent credit. Modify the allowable deductions for the itemized deduction credit to include: (a) interest expenses for a principal residence or a second home in Wisconsin; and (b) charitable contributions.

Note:

Under the motion, modifications would be made to the calculation of Wisconsin AGI, the sliding scale standard deduction, the rate and bracket structure and the tax credits using the provisions contained in 1995 Senate Bill 167, beginning with tax year 1997. In addition, the standard deduction formulas and tax brackets would be indexed for changes in CPI beginning with tax year 1999. It is estimated that the alternative income tax structure would generate approximately the same amount of revenue as current law. A description of the modifications follows.

Modifications to Wisconsin AGI. Wisconsin uses federal AGI, adjusted by additions and subtractions required by Wisconsin law, to determine Wisconsin AGI. Currently, Wisconsin does not follow the federal tax treatment of capital gains and losses and social security benefits, as well as other types of income. As a result, affected taxpayers must, after federal AGI has been determined, make a calculation to find the amount of income subject to taxation in Wisconsin. Under the motion, the state would tax these two sources of income using the same federal tax treatment. A description of these sources of income and the current state and federal tax treatment follows:

Capital Gains/Losses. Under current law, Wisconsin provides an income tax exclusion for 60% of long-term capital gains, which are gains on assets held for at least one year. Short-term gains from assets held less than one year are taxed as ordinary income. The amount of net capital losses that may be used to offset ordinary income is limited to $500 annually, with the remainder carried forward to offset income in future years.

Under federal law, net capital gains are generally fully taxable regardless of how long the assets are held. However, long-term capital gains are subject to a maximum marginal tax rate of 28% rather than the 39.6% top rate which applies to ordinary income. The amount of net capital losses that may be used to offset ordinary income is limited to $3,000 annually, with a carryforward. Special federal and state provisions apply to gains on the sale or exchange of a principal residence.

Social Security Benefits. Under current law, the state follows 1993 federal law and only taxes up to 50% of social security benefits. The federal taxation of social security increased to up to 85% of benefits beginning in tax year 1994.

Modifications to the Standard Deduction. Taxable income, which is the amount of income that is actually subject to tax, is computed by subtracting the sliding scale standard deduction from Wisconsin AGI. The sliding scale standard deduction is based on formulas that vary by filing status and adjusted gross income. The current law sliding scale standard deduction formulas are shown in the following table.

Marital Status	Wisconsin AGI	Standard Deduction
Single	AGI less than $7,500	$5,200
	AGI between $7,500 and $50,830	$5,200 - [12.0% x (AGI - $7,500)]
	AGI greater than $50,830	$0
Married-Joint	AGI less than $10,000	$8,900
	AGI between $10,000 and $55,000	$8,900 - [19.778% x (AGI - $10,000)]
	AGI greater than $55,000	$0
Married-Separate	AGI less than $4,750	$4,230
	AGI between $4,750 and $26,140	$4,230 - [19.778% x (AGI - $4,750)]
	AGI greater than $26,140	$0
Head-of-Household	AGI less than $7,500	$7,040
	AGI between $7,500 and $25,000	$7,040 - [22.515% x (AGI - $7,500)]
	AGI greater than $25,000	Single Standard Deduction

Modifications to the Rates and Brackets. Wisconsin taxable income is multiplied by the applicable tax rates to arrive at gross tax lability. The tax rate structure is cumulative so that marginal tax rates apply only to income that falls within the appropriate brackets. The current individual income tax rates and brackets are outlined below.

Taxable Income Bracket			Marginal
Single	Married-Joint	Married-Separate	Tax Rate
Less than $7,500	Less than $10,000	Less than $5,000	4.90%
7,500 to 15,000	10,000 to 20,000	5,000 to 10,000	6.55
15,000 and Over	20,000 and Over	10,000 and Over	6.93

Under the motion, a fourth and fifth bracket would be created and the rates would be modified.

Modifications to the Tax Credits. The motion would modify the current itemized deduction tax credit and eliminate the other nonrefundable credits, including: the dependent credit, senior credit, married couple credit and the property tax/rent credit. The refundable credits would not be affected by the motion.

Under current law, an itemized deduction tax credit is provided if allowable deductions exceed the sliding scale standard deduction; the excess amount is eligible for a tax credit of 5%. With the exception of state income taxes and state and local property taxes, allowable expenses used in calculating the state credit conform to the expenses permitted as federal itemized deductions. These include: (a) charitable contributions; (b) medical expenses exceeding 7.5% of AGI; (c) miscellaneous expenses, including employe business expenses, in excess of 2% of AGI; (d) interest expenses for a principal residence or a second home in Wisconsin; (e) interest expenses for property sold on a land contract; and (f) other interest expenses, except personal interest.

Under the motion, allowable deductions for the itemized deduction tax credit would be limited to include: (a) interest expenses for a principal residence or a second home in Wisconsin; and (b) charitable contributions. The credit would still equal 5% of the amount by which allowable deductions exceed the sliding scale standard deduction.

MO# 3173

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
1 WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

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GENERAL FUND TAXES

LFB Summary Items for Which No Issue Papers Have Been Prepared

Item #	Title
1	General Fund Tax Changes
8	Sales Tax Exemption for Plastic Sheeting Used in Farming
12	Federalize Treatment of Statutory Independent Contractors
14	Exempt Interest Paid on Bonds Issued by a Premier Resort Center

LFB Summary Items for Introduction as Separate Legislation

Item #	Title
17	Reciprocal Wine Shipments
18	Penalty for Frivolous Income Tax Return
19	Tax Appeals Commission -- Definition of Small Claims

MO# include all items

2	BURKE	Y	N	A
	DECKER	Y	N	A
	GEORGE	Y	N	A
	JAUCH	Y	N	A
	WINEKE	Y	N	A
	SHIBILSKI	Y	N	A
	COWLES	Y	N	A
	PANZER	Y	N	A
1	JENSEN	Y	N	A
	OURADA	Y	N	A
	HARSDORF	Y	N	A
	ALBERS	Y	N	A
	GARD	Y	N	A
	KAUFERT	Y	N	A
	LINTON	Y	N	A
	COGGS	Y	N	A

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Administration

Departmentwide

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LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
4	State Budget System Redesign (Paper #120)
5	Contract Compliance Officer (Paper #121)
6 & 10	Demographics Services (Paper #122)
9 f	Shift of Positions Between Appropriations (Paper #123)