

FISCAL ESTIMATE FORM

1999 Session

- ORIGINAL UPDATED
- CORRECTED SUPPLEMENTAL

| |
|-----------------------|
| LRB # 99-4631/1 |
| INTRODUCTION # SB 451 |
| Admin. Rule # |

Subject

Adopting Federal Internal Revenue Code Changes; Withholding by Purchaser of Lottery Prize

Fiscal Effect

- State: No State Fiscal Effect
 Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation
- | | |
|--|--|
| <input type="checkbox"/> Increase Existing Appropriation <input checked="" type="checkbox"/> Increase Existing Revenues <input type="checkbox"/> Decrease Existing Appropriation <input type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Create New Appropriation | <input type="checkbox"/> Increase Costs - May be Possible to Absorb Within Agency's Budget <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs |
|--|--|

Local: No Local Government Costs

- | | | |
|--|--|--|
| 1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 3. <input type="checkbox"/> Increase Revenues <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenues <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 5. Types of Local Governmental Units Affected: <input type="checkbox"/> Towns <input type="checkbox"/> Villages <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others _____ <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts |
|--|--|--|

Fund Sources Affected

- GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations

Assumptions Used in Arriving at Fiscal Estimate:

This bill adopts the changes made to the federal Internal Revenue Code through December 31, 1999, for state income and franchise tax purposes, allowing the state to conform its income tax bases to the tax bases under federal law. Adopting these changes would increase revenues by \$1.1 million in FY01. In addition, the bill would require a purchaser of an assignment of a lottery prize to withhold Wisconsin income tax from the payment made to the person selling the prize.

Major federal tax law changes that would be adopted include:

- ♦ An exclusion from income of employees for up to \$5,250 in expenses paid by their employers under an educational assistance plan. This federal exclusion had been scheduled to expire June 1, 2000, but now has been extended to December 31, 2001. It is expected to reduce individual income tax revenues by \$2.2 million in FY01.
- ♦ An election that permits a business to deduct immediately, rather than depreciate over time, certain environmental remediation costs. This election was to expire December 31, 2000, but extended an additional year, to December 31, 2001. It is expected to reduce corporate income and franchise tax revenues by \$0.1 million in FY01.
- ♦ Limitation of long-term capital gains in constructive ownership transactions involving financial assets and derivative contracts to the net underlying gain, based on fair market values. The change will increase individual income tax revenues by \$0.2 million in FY01.
- ♦ Extension to December 31, 2005, of a rule allowing an employer to finance retiree health benefits out of excess assets from a defined benefit pension plan, subject to a new minimum cost requirement that

(continued on page two)

Long-Range Fiscal Implications:

| | | |
|---|--|----------------------------|
| Agency/Prepared by: (Name & Phone No.) Wisconsin Department of Revenue Dennis Collier, (608) 266-5773 | Authorized Signature/Telephone No. Yeang-Eng Braun <i>Yeang Eng Braun</i> (608) 266-2700 | Date <i>3/15/00</i> |
|---|--|----------------------------|

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replaced the minimum benefit standard existing under prior law. The changes will increase revenues by \$0.1 million in FY01.

- ◆ Repeal of the installment method of accounting for accrual method taxpayers. Individual and corporate taxes are expected to rise \$2.9 million in FY01 due to this change.
- ◆ Changes in the treatment of real estate investment trusts that are expected to increase revenues by \$0.2 million in FY01.

Adoption of these federal law changes is not expected to change the Department of Revenue's cost of administering the income and franchise taxes.

Requiring the purchaser of a lottery prize to withhold income tax from the amount paid to the seller may affect the timing of the tax payment on those prizes, but it is not expected to have a significant effect on state income tax collections. The change would also not significantly affect the administrative expenses of the Lottery Division.

YEB 3/15/00

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

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I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

| II. Annualized Costs: | Annualized Fiscal impact on State funds from: | |
|---|---|-----------------|
| A. State Costs by Category | Increased Costs | Decreased Costs |
| State Operations - Salaries and Fringe | \$ | \$ - |
| (FTE Position Changes) | (FTE) | (- FTE) |
| State Operations-Other Costs | | - |
| Local Assistance | | - |
| Aids to Individuals or Organizations | | - |
| TOTAL State Costs by Category | \$ | \$ - |
| B. State Costs by Source of Funds | Increased Costs | Decreased Costs |
| GPR | \$ | \$ - |
| FED | | - |
| PRO/PRS | | - |
| SEG/SEG-S | | - |
| III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.) | Increased Rev. | Decreased Rev. |
| GPR Taxes | \$ 1.1 million | \$ - |
| GPR Earned | | - |
| FED | | - |
| PRO/PRS | | - |
| SEG/SEG-S | | - |
| TOTAL State Revenues | \$ 1.1 million | \$ - |

NET ANNUALIZED FISCAL IMPACT

| | <u>STATE</u> | <u>LOCAL</u> |
|------------------------|-----------------|--------------|
| NET CHANGE IN COSTS | \$ _____ | \$ _____ |
| NET CHANGE IN REVENUES | \$ +1.1 million | \$ _____ |

| Agency/Prepared by: (Name & Phone No.) | Authorized Signature/Telephone No. | Date |
|---|---|---------|
| Wisconsin Department of Revenue Dennis Collier, (608) 266-5773 | Yeang-Eng Braun <i>Yeang Eng Braun</i> (608) 266-2700 | 3/15/00 |