

Assembly Republican Majority

Bill Summary

AB 520: Technology Zone Tax Credits

Relating to: The method of calculating technology zone tax credits and the certification of businesses under the technology zone program.

By Representatives Suder, Vruwink, Nass, Pettis, Hines, Hahn, Jensen M. Lehman, McCormick, Albers, Friske, Seratti and Towns; cosponsored by Senator Harsdorf, Lassa, Zien, Kanavas, Stepp, Schultz, Roessler and Wirch.

Date: September 25, 2003

BACKGROUND

Under current law, a business that is located in a technology zone and certified by the Department of Commerce to receive tax credits may claim the credits in an amount, as adjusted by Commerce, that is equal to the sum of the property taxes, income and franchise taxes, and sales and use taxes that the business paid in the taxable year. One factor Commerce must consider in determining whether to certify a business is the number of new jobs the business is likely to create. Generally, partnerships, limited liability companies, and tax-option corporations do not pay income or franchise taxes, but instead, pass their tax liability on to their partners, members, and shareholders who report the income received from such entities.

SUMMARY OF AB 520

Under Assembly Bill 520, the credit may be claimed in an amount, as adjusted by Commerce, that is equal to the sum of the real and personal property taxes that the business paid in the taxable year, an amount equal to 10 percent of the amount of capital investments that are made by the business in the technology zone, and an amount equal to 15 percent of the amount that is spent for the first 12 months of wages for each full-time job that is created in a technology zone after certification. Capital investments mean the purchase price of depreciable, tangible personal property and the amount that is expended to acquire, construct, rehabilitate, remodel, or repair real property in a technology zone.

The bill requires that capital investments, for which credit is claimed, must be used in the technology zone during the period that the business is certified by Commerce. The bill also requires the claimant must submit verification to the Department of Revenue that Commerce has certified the claimant's business, and that Commerce has verified the price and the location of the investments for which a credit is claimed. In addition, this bill specifies that, in determining whether to certify a business, Commerce must consider the number of full-time jobs the business is likely to create. The bill defines "full-time job," with certain exceptions, to mean a regular, nonseasonal full-time position in which an individual, as a condition of employment, is required to work at least 2,080 hours per year, including paid leave and holidays, and for which the individual is paid least 200 percent of the federal minimum wage and receives benefits that are not required by federal or state law.

FISCAL EFFECT

A fiscal estimate prepared by the Department of Revenue indicates that AB 520 would not increase the \$5 million cap for each technology zone, but would likely shorten the time period during which the credits would be used. The Department is unable to determine the fiscal effect resulting from the shortened time

period, since the credits must be certified by the Department of Commerce before the businesses may claim them.

PROS

1. More high technology-based companies, more jobs and venture capitalists will be attracted to Wisconsin.
2. The benefits of the technology zone program will be available to all types of eligible businesses. The program's administrative burdens will be reduced, thereby improving economic development in our state.
3. Businesses will be able to claim the credit for actual expenditures for capital investments and wages.

CONS

1. The time period during which the credits could be used would likely be shortened.
2. The Department of Commerce, by administrative rule, would be allowed to reduce the number of hours required for a job to be considered full-time to 1,820 hours per year, based on the normal work week of a certified business.

SUPPORTERS

Rep. Scott Suder, author; Sen. Sheila Harsdorf, lead co-sponsor; Sen. Ted Kanavas; the Department of Revenue; the Department of Commerce; Amy Boyer, WI Economic Development Assn.; Paulete Enders, City of Sheboygan;

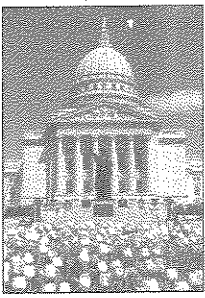
OPPOSITION

No appearances or registrations against AB 520.

HISTORY

Assembly Bill 520 was introduced on Sept. 11, 2003, and referred to the Assembly Committee on Ways and Means. A public hearing was held on Sept. 17, 2003. On Sept. 17, 2003, the Committee voted 12-0-2 [Reps. Jeskewitz and Hebl absent] to recommend passage of AB 520.

CONTACT: Vicky Halverson, Office of Rep. Michael Lehman



Michael (Mickey)
Lehman

AB 520

State Representative
99th Assembly District

Committee Chair: Ways and Means

Memorandum

To: Ways & Means Committee Members

From: Rep. Michael "Mickey" Lehman

Date: September 12, 2003

Re: LRB 3214/2 relating to Technology Zone Tax Credits, and Amendments for the 9/17/03 Public Hearing/Executive Session

Attached is a copy of Rep. Suder's LRB 3214/2. You will recall that this is a redraft of his AB 299, which received a Public Hearing 6/11/03, and was also discussed at our last PH/ES. The bill will be numbered shortly. I'll pass along that number to you as soon as I get it.

In addition, the Committee will consider a simple amendment to AB 431, and a substitute amendment to AB 242. Copies of both are attached for your information.

As indicated on the hearing notice, the Committee will hold an Executive Session on these three bills.



Wisconsin Economic Development Association Inc.

TO: Members, Assembly Ways & Means Committee

FROM: Amy L. Boyer, on behalf of
Wisconsin Economic Development Association

DATE: September 16, 2003

RE: **Support for Assembly Bill 520**

The Wisconsin Economic Development Association (WEDA), a statewide association of approximately 500 economic development professionals, respectfully urges support of Assembly Bill 520.

This bill makes certain changes to Wisconsin's Technology Zone Program. Specifically, the bill closes a loophole in which certain businesses such as partnerships, LLC's, and tax-option corporations can not fully receive the benefits of the program because of the way they are taxed. The bill also makes changes to the way in which tax credits are calculated by the Dept. of Commerce.

WEDA believes that the changes included in AB 520 would make the Technology Zone program more beneficial to Wisconsin businesses and gets back to the original intent of the program, which is to attract more technology related businesses and jobs to Wisconsin. This bill also significantly contributes to the legislature's goal of promoting and improving economic development in Wisconsin.

Again, WEDA respectfully urges you to support passage of AB 520.

Thank you for your consideration.

MEMORANDUM

September 17, 2003

To: Members, Assembly Committee on Ways and Means

From: Michael L. Morgan, Secretary, Department of Revenue
Cory L. Nettles, Secretary, Department of Commerce

Re: AB 520 – Technology Zones

Thank you for the opportunity to address concerns raised about Assembly Bill 299 at the public hearing held on June 11th. Working together, the Departments of Revenue and Commerce have suggested changes, detailed in new bill AB 520 and described below, to address those concerns and improve the Technology Zone program. Governor Jim Doyle's Grow Wisconsin Plan specifically endorses this important enhancement to the Technology Zone Program.

The Technology Zone program provides tax credits to businesses as an inducement to technology related business development. Under current law, the Department of Commerce calculates tax credits for eligible businesses based on the amount of income and franchise taxes, sales and use taxes, and property taxes paid in a year.

Several issues have arisen in administering this program. For example, certain businesses (partnerships, limited liability companies and tax-option corporations) do not pay income or franchise taxes directly. Instead, they pass this liability through to their partners, members and shareholders. However, since these businesses do not pay income and franchise taxes, they can not benefit from that portion of the tax credit based on their payment. Additionally, many businesses are finding it overly burdensome to document sales and use taxes, and particularly difficult to do so for construction projects.

AB 299 was introduced to address these issues by modifying the way in which the tax credits are calculated. Though supportive of the authors' goals, Department of Revenue staff identified several problems with the approach taken under the bill and expressed them at the June 11th hearing.

The new bill, AB 520, proposes to replace the portion of the credit based on income and franchise taxes with a credit for 10% of capital investments made during the taxable year. It would also replace the portion of the credit based on sales and use taxes with a credit for 15% of first-year wages paid for new full-time jobs in a Technology Zone. The property tax portion of the credit would remain in place. In addition, the bill makes other changes meant to clarify administration of the program.

These changes would help make the intended benefits of the Technology Zone program available to all types of eligible businesses and would reduce the program's administrative burdens. We believe it would make the program significantly more effective.



State of Wisconsin • DEPARTMENT OF REVENUE

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Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

Assembly Ways and Means Committee Hearing, September 17, 2003

AB 520 - Technology Zone Tax Credit (Rep. Suder)

Description of Current Law and Proposed Change

- Under current law, businesses that are located in a technology zone may be certified by the Department of Commerce to receive tax credits. Commerce certifies the businesses for a portion of the amount of income or franchise tax, real and personal property tax, and sales and use tax paid by the business in a year.
- Pass-through entities, such as partnerships, limited liability companies treated as partnerships and subchapter S corporations, have limited income and franchise tax liability at the entity level, since they pass the income, loss and deductions of the entity to their partners, members and shareholders. As a result, pass-through entities do not claim the technology zone credits, but compute the amount of the credit that each partner, member or shareholder may claim in proportion to their ownership interest. The technology zone credit that passes through to the owners does not generally include any amount for income or franchise tax liability since the entity does not generally pay that tax.
- Contractors that purchase materials for construction projects pay sales or use taxes on those purchases. The tax paid is undoubtedly passed through in the contract price to the clients for whom the contractors are doing the construction. However, because the client does not pay the sales tax directly, those taxes cannot be used to compute the portion of the technology zone credit based on sales and use taxes.
- The bill would replace the portion of the technology zone credit based on income and franchise taxes with a credit for 10% of capital investments made during the taxable year. It would also replace the portion of the credit based on sales and use taxes with a credit for 15% of wages paid for the first 12 months of wages for new full-time jobs in a technology zone. The bill would allow the Department of Commerce, by administrative rule, to reduce the number of hours required for a job to be considered full-time to 1,820 hours per year based on the normal work week of a certified business.

Impact on Economic Development

- As the credit exists under current law, some certified businesses that make substantial investments in capital and wages may not be able to claim certain portions of the technology zone credit because they are pass-through entities or because they did not pay sales tax directly. The proposed credit would allow those businesses to claim the credit for actual expenditures for capital investment and wages of the business that contribute to economic development and growth of the state.

Administrative Impact/Fiscal Effect

- This bill would not increase the \$5 million credit cap for each technology zone, but would likely shorten the time period during which the credits would be used. The Department is unable to determine the fiscal effect resulting from the shortened time period since the credits must be certified by Commerce before the businesses may claim them.

DOR Position

- Support

Prepared by: Pam Walgren (608-266-7817)

September 14, 2003

PW:skr

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**Wisconsin
Manufacturers
& Commerce**

Memo

TO: Members of the Assembly Committee on Ways and Means
FROM: Joan Hansen, Director of Tax & Corporate Policy
DATE: September 17, 2003
RE: 2003 Assembly Bill 520-Technology Zone Tax Credits

WMC supports AB 520 that relates to the method of calculating technology zone tax credits.

The purpose of AB 520 is to attract more high technology-based companies, more jobs and venture capitalists. With Wisconsin's economy still lagging and the loss of 66,000 manufacturing jobs over the recessionary period, we need to encourage more growth and more jobs and AB 520 is a step in the right direction.

WMC, however, is opposed to the provision that defines full-time jobs, requiring certain conditions of employment such as paying at least 200 percent of the federal minimum wage and receiving benefits that are not required by federal or state law. The original version of the bill, AB 299, did not include this provision, and WMC would recommend that it be deleted from this version as well.

This provision goes against free-market principles and restricts companies from taking advantage of the technology zones.

By adding the provision that allows the Department of Commerce to determine what are or are not full time jobs does not allow flexibility in attracting those jobs to the state initially.

The provision not only discourages start-up companies locating in a technology zone, it also restricts those highly trained professionals who may not be working full time, such as part-time moms or other professionals who may be highly qualified, from being considered in that job market. In today's economy more flexibility is becoming the trend of the marketplace, not less.

For these reasons, WMC encourages the committee to remove the provision from the bill.



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DOR Position

- Support

Prepared by: Pam Walgren (608-266-7817)

September 14, 2003

PW:skr

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Vote Record Committee on Ways and Means

Date: 9/17/03

Moved by: Morris

Seconded by: Lasee

AB 520 SB _____ Clearinghouse Rule _____
 AJR _____ SJR _____ Appointment _____
 AR _____ SR _____ Other _____

A/S Amdt _____
 A/S Amdt _____ to A/S Amdt _____
 A/S Sub Amdt _____
 A/S Amdt _____ to A/S Sub Amdt _____
 A/S Amdt _____ to A/S Amdt _____ to A/S Sub Amdt _____

Be recommended for:
 Passage Adoption Confirmation Concurrence Indefinite Postponement
 Introduction Rejection Tabling Nonconcurrency

<u>Committee Member</u>	<u>Aye</u>	<u>No</u>	<u>Absent</u>	<u>Not Voting</u>
Representative Michael Lehman, Chair	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Jeffrey Wood	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Stephen Nass	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Eugene Hahn	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Frank Lasee	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Suzanne Jeskewitz	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Representative Samantha Kerkman	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Thomas Lothian	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Wayne Wood	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Leon Young	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Terese Berceau	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Robert Ziegelbauer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Johnnie Morris	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Representative Tom Hebl	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Totals:	<u>12</u>	<u>0</u>	<u>2</u>	_____

Motion Carried Motion Failed