

## **Committee Name:**

# **Senate Committee – Economic Development, Job Creation and Housing (SC–EDJCH)**

### **Appointments**

03hr\_SC–EDJCH\_Appt\_pt00

### **Committee Hearings**

03hr\_SC–EDJCH\_CH\_pt00

### **Committee Reports**

03hr\_SC–EDJCH\_CR\_pt00

### **Clearinghouse Rules**

03hr\_SC–EDJCH\_CRule\_03–

### **Executive Sessions**

03hr\_SC–EDJCH\_ES\_pt00

# **Hearing Records**

## **03hr\_ab0508**

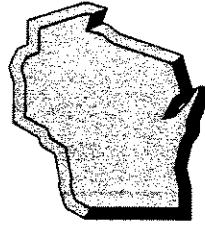
03hr\_sb0000

### **Misc.**

03hr\_SC–EDJCH\_Misc\_pt00

### **Record of Committee Proceedings**

03hr\_SC–EDJCH\_RCP\_pt00



# WISCONSIN CAST METALS ASSOCIATION

225 Regency Court, Suite 200 ☐ Brookfield, WI 53045  
Phone 262-432-0035 ☐ Fax 262-784-2287

September 29, 2003

Senator Alberta Darling and  
Representative Dean Kaufert,  
Co-Chairs and Members,  
Joint Committee on Finance

Dear Co-Chairs Darling and Kaufert, and Members of the Committee:


RE: Assembly Bills 507 and 508

Wisconsin law currently provides for a nonrefundable corporate income tax credit for the sales taxes paid on fuel and electricity used in the manufacturing process. Ironically, such a tax credit is of benefit to only the most profitable businesses. Firms that are experiencing an economic downturn may not be able to utilize the credit at all in an unprofitable year. Further, if these companies are only marginally profitable, they may never fully recoup the sales taxes paid on fuel and electricity due to the existing limitation on carrying the credit forward.

Assembly Bill 507 would convert the tax credit to an exemption effective 1/1/2005. This is consistent with the sales tax treatment of other ingredients "consumed or destroyed in the manufacturing process." It would also parallel the sales tax exemption for fuel used by utilities to generate power. Providing an exemption is also consistent with the way most other states deal with fuel and electricity used in manufacturing. Assembly Bill 508 allows previously-earned tax credits to be carried forward an additional 5 years (a total of 20 years rather than the current 15 years).

On behalf of Wisconsin foundries, I can assure you that the changes encompassed in Assembly Bills 507 and 508 would be a major improvement for an energy-intensive industry such as ours. Further, passage of these bills is one very tangible way the Legislature can assist the manufacturing sector in general. Thank you for your consideration of these comments and we urge your favorable action on Assembly Bills 507 and 508.

Very truly yours,

  
James O. White  
President



## Assembly Bills 507 and 508 (Tax Credit for Fuel and Electricity)

### Background:

Wisconsin law currently allows a corporate or individual income tax credit for the amount of sales tax paid for fuel and electricity used in the manufacturing process. If the credit exceeds tax liability for the year, any unused portion may be carried forward up to 15 years to offset any future tax liability.

Assembly Bill 507 would convert the current credit to a sales tax exemption effective January 1, 2005. Assembly Bill 508 would allow any previously-earned tax credits to be carried forward an additional five years (a total of 20 years rather than the current 15 years).

### Issues:

- The current tax credit is of no immediate value to firms that are experiencing an economic downturn. These companies will not be able to utilize the credit at all in an unprofitable year. If such businesses are only marginally profitable in future years, they may never fully recoup the sales tax paid on fuel and electricity due to the existing limitation on carrying the credit forward. (Ironically, the tax credit is of greatest benefit to only the most profitable companies!)
- Other components of the manufacturing process or “ingredients that are consumed or destroyed” in that process are currently exempt from the sales tax. The treatment of fuel and electricity as a credit is an aberration of state tax policy.
- Most other states exempt fuel and electricity used in manufacturing from the sales tax. Wisconsin, in fact, provides an exemption for the fuel purchased by utilities to generate power, a use comparable to manufacturing.

### Status:

Pending action (10/15/03) in the Joint Committee on Finance.

### WCMA Position:

Urge **SUPPORT** of Assembly Bills 507 and 508.

# INTERNATIONAL PAPER

DAVE KLUESNER  
REGIONAL PUBLIC  
AFFAIRS MANAGER

16 NORTH CARROLL STREET  
SUITE 800  
MADISON, WI 53703-2716  
PHONE 608 255 0231  
FAX 608 255 0227

**January 13, 2004**

**To the Members of the Senate Committee on Economic Development, Job Creation and Housing:**

Chairperson Stepp, members of the Committee, thank you for the opportunity to appear before you today. My name is Dave Kluesner. I am the regional public affairs manager for International Paper. I represent more than 1,800 IP employees at 10 business locations throughout Wisconsin.

I am here to voice my company's support for passage of Assembly Bill 508. In particular, I would like to highlight the provisions extending from 15 to 20 years the carry forward period for the income tax credit for sales tax paid on fuel and electricity consumed in manufacturing.

As was discussed during the debate over Assembly Bill 507, many manufacturers have been unable to utilize significant amounts of fuel and electricity tax credits at a time when they are most desperately needed. Such is the case for the state's pulp and paper companies, including International Paper.

The Legislature and Governor Doyle addressed the prospective problem through the creation of a new sales tax exemption for fuel and electricity consumed in manufacturing. For this, we are deeply grateful. However, there is a retroactive problem left unresolved.

The pulp and paper industry, like many manufacturing segments, has been in a severe economic downturn for several years. Many companies have fuel and electricity credit backlogs approaching or exceeding the 15-year carryover cutoff. Such is the case for International Paper.

Within our company, facilities book the value of the fuel and electricity credits as a deferred tax benefit. In effect, we book a tax prepayment for the amount of the credit earned and give the manufacturing locations the benefit of the credits. The facilities then book the credits as either miscellaneous income or a reduction in energy costs.

If AB 508 is not enacted into law, our Wisconsin plants will be required to reverse the deferred tax benefits to income as the credits expire. This would force facilities that continue to face extremely difficult economic conditions to absorb roughly \$1.75 million in credit related losses.

Our employees have already cut operating budgets to the bone. It would be extremely difficult and painful to absorb additional costs related to lost credits. The Legislature and the Governor can alleviate this pressure by extending the credit carryover period to 20 years.

On behalf of my fellow International Paper employees throughout Wisconsin, I thank you in advance for your help and support.

---

# Position Paper

of the WISCONSIN PAPER COUNCIL

---



## ASSEMBLY BILL 508

### Carry-forward Period Income and Franchise Tax Credit for Sales Taxes Paid on Fuel and Electricity Used in Manufacturing

Current law provides a nonrefundable credit against corporate income taxes due for the amount of sales taxes paid on fuel and electricity consumed in manufacturing tangible personal property. Unused amounts can be carried forward for 15 years.

**The Wisconsin Paper Council supports Assembly Bill 508 which would extend the carry-forward period from 15 years to 20 years.**

#### Background

Most states allow manufacturers an exemption from sales taxes for various materials and equipment used in manufacturing, such as raw materials, utilities (fuel and electricity), and machinery. In Wisconsin, fuel and electricity used in manufacturing is subject to the sales tax. However, Wisconsin provides a nonrefundable credit against income taxes due that is intended to be equivalent to a sales tax exemption. If the amount of sales taxes paid exceeds taxable income in any year, the difference can be carried forward and claimed during the next 15 years.

#### Concerns

Although Wisconsin's income tax credit is intended to be equivalent to the sales tax exemption provided by most other states, it falls short in a key way – manufacturers often do not generate sufficient income in order to fully utilize the credit. The Department of Revenue estimates that Wisconsin manufacturers are owed approximately \$155 million in credits that are being carried forward because companies have not had sufficient income to utilize them.



**Wisconsin Economic Development Association Inc.**

TO: Members, Senate Committee on Economic Development

FROM: Peter Thillman & Jim Hough, on behalf of  
WEDA Board of Directors

DATE: January 13, 2004

RE: **Support for AB 508 as amended by Assembly Amendment 1**

The Wisconsin Economic Development Association (WEDA) is a statewide association consisting of over 500 economic development professionals dedicated to advocating policies and initiatives that help to expand and grow Wisconsin's economy. WEDA strongly supports and respectfully urges favorable action on AB 508, as amended by the Assembly, to provide refundable tax credits for development and technology zones.

Refundable tax credits will encourage greater entrepreneurial activity by targeting the incentives where and when emerging companies most need the assistance. The Technology Zone Program, for example, targets growth in technology related industries. Many of these companies are start-ups or rapid growth companies, which also create the high-end jobs Wisconsin desperately needs. Unfortunately existing tax credit programs do not address the economic reality faced by these emerging companies.

Our growth companies need our assistance in the early stages of development. While current tax credit programs do reward participating companies, the benefit is delayed up to fifteen years.

Making tax credits refundable rewards entrepreneurial initiative with an immediate economic incentive aimed at accelerating growth of the company or companies involved in these programs. Amended AB 508 is an excellent piece of economic development legislation helping to make Wisconsin competitive for 21<sup>st</sup> Century jobs.

**PEOPLE • JOBS • PROFITS**

P.O. Box 1230

Madison WI 53701

608-255-5666

Testimony of  
**Representative Steve Wieckert**  
Before  
**Senate Committee on Economic Development, Job Creation and Housing**  
Regarding  
**AB 508 - Tax Credits For Job Creation and Economic Growth**

**January 13, 2004**

Chairwoman Stepp and members of the Committee:

Thank you for holding a public hearing today on AB 508, which I believe will be of significant financial aid to manufacturing companies across the state, and will help to grow Wisconsin's economy and create new jobs.

**WHAT THIS BILL DOES**

Tax Credit Extension

AB 508 allows companies who have sales tax credits for electricity used in the manufacturing process to use these credits for a period of up to twenty years. The current life of a credit is only fifteen years.

Refundable Tax Credit In Development Zones

The bill also allows business and companies that are located in development zones to use their tax credits in the same year they receive them, whether they report a profit or not. These would therefore be considered refundable credits. These development zones have been established to help reactivate distressed areas of local economies. The zone credits have five major categories of:

- Development zones
- Technology zones
- Agriculture zones
- Enterprise zones
- Opportunity zones

Economic Growth Factors

The general purpose of these zones is to create new jobs, encourage capital development, rebuild fragile or decaying economic areas, and to foster growth in technology industries and to very importantly assist agriculture in Wisconsin.

**WHY THIS BILL IS IMPORTANT**

Preserves Companies Asset

This is important because some companies are coming close to the fifteen-year mark. As a result they would lose the credit, which they earned. Many

companies carry these as an asset on their financial records and the company would actually lose value, should these credits expire without being able to be used.

#### Positive Impact On Half-Million Jobs

There are over 2,500 manufacturing companies in Wisconsin that qualify for the tax credit. The manufacturing sector employs over 517,000 employees in Wisconsin, many of which are Wisconsin's highest paid hourly jobs.

#### Help Critical Areas Especially

These job-creating provisions of AB 508 would be specifically helpful to the areas of Beloit, Racine, Milwaukee, West Allis, and other areas throughout Wisconsin.

#### Job Creation

These companies that AB 508 would help are the companies that will have the potential of adding significant numbers of high-paying jobs to Wisconsin's pay rolls.

#### Reducing Tax and Regulatory Drag

If the legislature is to be a significant player in helping to create high-paying jobs in Wisconsin, we need to reduce the tax and regulatory drag on Wisconsin's economy. AB 508 moves us in that direction.

### **FISCAL IMPACT**

#### Fiscally Responsible

AB 508 does not create any new tax credits. It does not lower the eligibility criteria for receiving these tax credits. It extends the life of which these credits can be used and for development zones allows for the credits to be used immediately, which would be of significant help to start-up companies and high-tech companies that don't always turn a profit early after the company is created.

### **THIS BILL HAS THE SUPPORT OF**

- Wisconsin Paper Council
- Kimberly-Clark
- Glafelter
- Fox River Paper Co.

Thank you for holding a public hearing on AB 508. I would be happy to answer any questions you may have at this time.