

Fiscal Estimate - 2005 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-1297/4	Introduction Number AB-208
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Subject
 Job opportunity building development zones

Fiscal Effect

State:

No State Fiscal Effect
 Indeterminate

<input checked="" type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations	<input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs
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Local:

No Local Government Costs
 Indeterminate

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 Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
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Fund Sources Affected	Affected Ch. 20 Appropriations
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	20.835(2)(cm); 20.835(2)(em); 20.835(2)(eo)

Agency/Prepared By DOR/ Pamela Walgren (608) 266-7817	Authorized Signature Rebecca Boldt (608) 266-6785	Date 5/12/2005
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Fiscal Estimate Narratives

DOR 5/12/2005

LRB Number	05-1297/4	Introduction Number	AB-208	Estimate Type	Updated
Subject					
Job oppurtunity building development zones					

Assumptions Used in Arriving at Fiscal Estimate

The bill would create a rural enterprise development zone program with three refundable credits: a rural enterprise development zone jobs credit, a rural enterprise development income credit and a rural enterprise development capital gains credit. With a refundable credit, any amount of credit not used to offset tax liability in the year the credit is claimed is paid as a refund to the claimant.

Under the bill, the Department of Commerce could designate up to 10 rural enterprise development zones and certify businesses in the zone for tax credits. The rural enterprise zones would have to be in areas not exceeding 5,000 acres and could not include any part of a first class city or a city with a population greater than 200,000 (Milwaukee or Madison). The bill does not require that the 5,000 acres be contiguous. As such, the area encompassing specific businesses could be carved out as subzones as long as the total acres of all certified businesses did not exceed 50,000 (10 zones x 5,000 acres).

The bill requires Commerce to consider indicators of economic need and the likelihood that the zone designation would help the area achieve increased economic opportunity and expansion, infrastructure improvements, reduced regulatory burdens and increased job training opportunities in the zone. Designation as a zone could last no more than 12 years.

The bill would authorize Commerce to certify a business for tax benefits if it were to begin operations in a zone or relocate to a zone. A business relocating from another location in the state would have to increase full-time employees in the zone by at least 10% or make a capital investment in property in the zone equal to at least 10% of the business's gross revenue in the preceding tax year. Relocating businesses would be required to pay wages and benefits to employees in a zone that are at least as favorable as those paid to employees not located in a zone.

- The rural enterprise development income credit would be a refundable credit available against the individual income tax for an amount equal to 20% of the income an individual would derive from the operation of any trade or business in a zone, multiplied by 6.5%.
- The rural enterprise development capital gains credit would be a refundable credit available to offset the individual income tax for a portion of the capital gains on personal and real property used by a certified business in a zone. Under current law, 60% of the net long term gain from the sale of assets held for at least one year is excluded from income. The credit under the bill would equal the amount of gain not excluded under current law, times 6.5%.
- The rural enterprise development zone jobs credit would be a refundable credit applicable to both individual and corporate income and franchise taxes. The credit would be for a portion of payroll expenses, property taxes, sales and use taxes and training expenses.
- The payroll portion of the credit would be calculated by determining the lesser of the increase in zone payroll over the base year, the year prior to the designation of the zone, or the increase in state apportioned payroll over the base year, less the amount determined by multiplying the increase in the number of full-time employees in the zone from the base year times \$30,000, then multiplied times 7%.
- A supplemental portion of the credit would be available for property taxes paid on personal property in the zone in the taxable year, for sales and use taxes for taxable tangible personal property and services used or consumed primarily in the zone in the taxable year, and for training expenses for full-time employees in a zone in the taxable year if the training is to improve the skills of the employees, to train them in the use of new technologies or to train employees in their first full-time job.

- In addition, if all of the claimant's payroll and business-related property were located in a zone, additional credit would be available, equal to 20% of the zone payroll and adjusted basis of property at the time it was placed in service in the zone, times 6.5% for individuals or 7.9% for corporations.

Fiscal Effect

An estimate of the fiscal effect of this bill is not available. However, given the scope of the refundable credits, the fiscal effect could be substantial, and could total several million dollars per year, or more.

Information on taxes and other expenditures of businesses not located in Madison or Milwaukee is not available. The attached tables show a range of conservative fiscal estimates that could occur under the bill. The tables assume two scenarios: the first that 50% of activities that generate credit under the bill would be attributable to businesses located in Madison or Milwaukee and, therefore, not eligible for credit, and the second that 33% of those activities would be in Madison or Milwaukee. The tables show three possible fiscal effects of 10%, 5% or 1% of the remaining businesses qualifying for credits.

The estimates understate the revenue impact of the bill because three components (individual capital gains credit, jobs increased payroll credit and jobs all payroll and property in the zone credit) are not included in the estimates.

Long-Range Fiscal Implications

ASSUME 33% OF BUSINESSES ARE LOCATED IN MADISON OR MILWAUKEE

Credits	Statewide Numbers	Not in Milwaukee or Madison
Individual Capital Gains		-
Individual Net Income	\$ 7,280,000	\$ 4,877,600
Individual & Corporate Jobs		
Sales Tax	1,600,000,000	1,072,000,000
Personal Property Tax	232,300,000	155,641,000
Employer Training Expenses	80,000,000	53,600,000
Increased Payroll		-
100% in Zone		-
Estimated Fiscal Effect	\$ 1,874,580,000	\$ 1,251,091,000

ASSUME 50% OF BUSINESSES ARE LOCATED IN MADISON OR MILWAUKEE

Credits	Statewide Numbers	Not in Milwaukee or Madison
Individual Capital Gains		-
Individual Net Income	\$ 7,280,000	\$ 3,640,000
Individual & Corporate Jobs		
Sales Tax	1,600,000,000	800,000,000
Personal Property Tax	232,300,000	116,150,000
Employer Training Expenses	80,000,000	40,000,000
Increased Payroll		-
100% in Zone		-
Estimated Fiscal Effect	\$ 1,919,580,000	\$ 956,150,000

KEE AND NOT ELIGIBLE FOR CREDIT		
10% Qualify	5% Qualify	1% Qualify
-	-	-
\$ 487,760	\$ 243,880	\$ 48,776
107,200,000	53,600,000	10,720,000
15,564,100	7,782,050	1,556,410
5,360,000	2,680,000	536,000
-	-	-
-	-	-
\$ 125,109,100	\$ 62,554,550	\$ 12,510,910

KEE AND NOT ELIGIBLE FOR CREDIT		
10% Qualify	5% Qualify	1% Qualify
-	-	-
\$ 364,000	\$ 182,000	\$ 36,400
80,000,000	40,000,000	8,000,000
11,615,000	5,807,500	1,161,500
4,000,000	2,000,000	400,000
-	-	-
-	-	-
\$ 95,615,000	\$ 47,807,500	\$ 9,561,500