



## Fiscal Estimate Narratives

DOR 4/14/2005

LRB Number <b>05-1748/2</b>	Introduction Number <b>SB-152</b>	Estimate Type <b>Original</b>
<b>Subject</b> Education tax credit		

### Assumptions Used in Arriving at Fiscal Estimate

The bill would create a nonrefundable income and franchise tax credit for certain businesses that pay tuition expenses at qualified postsecondary institutions for individuals enrolled in degree-granting programs. The credit would be for 50% of tuition expenses, but would increase to 75% of tuition expenses if the individual's taxable income was not more than 185% of federal poverty line. Unused credit amounts could be carried forward for use in offsetting income tax in future years.

To claim credit for tuition expenses of a family member of the claimant or a managing employee, the family member must have been employed an average of at least 20 hours a week for the claimant or the claimant's business during the previous year and be enrolled in a degree-granting program substantially related to the claimant's business.

Corporations, insurers and sole proprietors could claim the credit; partnerships, limited liability companies, and tax option companies would compute the credit and pass it on to partners, members and shareholders in proportion to their ownership interests.

Qualified postsecondary institutions are the University of Wisconsin System institutions, technical college system institutions, any regionally accredited four-year nonprofit college or university having regional headquarters and principal place of business in Wisconsin, or a school approved by the veterans educational approval board if the school has a physical presence and delivery of education in the state. Degree granting programs are defined to include any program for which an associate, bachelor's or graduate degree is awarded. No credit could be allowed unless the claimant obtained written certification from the school on the amount of qualified tuition the claimant paid or incurred in the taxable year.

A credit could not be claimed for any tuition amounts excluded from income under the Wisconsin tuition expense deduction or the federal employer educational assistance exclusion.

The bill would also require the department to annually submit a report to the legislature identifying each postsecondary institution that has received tuition payments and the amount of the tuition for each institution claimed as a credit.

Based on information from the University of Wisconsin System, the Wisconsin Technical College System and the U.S. Office of Management and Budget, it is estimated that employers currently provide \$45 million in qualified tuition expenses for employees annually. Of this amount, an estimated \$25 million would be subject to the 50% credit and \$20 million would be subject to the 75% credit. This would result in credit claims of approximately \$27.5 million annually ( $\$20 \text{ million} \times 75\%$ ) + ( $\$25 \text{ million} \times 50\%$ ). Based on Department data, approximately 75% of credits claimed in a tax year are actually used. Therefore, it is estimated that the fiscal effect would be to reduce income tax revenues by \$20.6 million annually ( $\$27.5 \text{ million} \times 75\%$ ).

The Department estimates that one-time computer programming development costs would be \$48,000 and ongoing support and data capture costs would be \$51,100. The bill does not provide funding for these costs.

### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

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**Subject**  
 Education tax credit

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

The Department anticipates one-time computer programming and development costs of \$48,000.

II. Annualized Costs:	Annualized Fiscal Impact on funds from:	
	Increased Costs	Decreased Costs

A. State Costs by Category		
State Operations - Salaries and Fringes	\$51,100	
(FTE Position Changes)	(0.8 FTE)	
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$51,100</b>	<b>\$</b>

B. State Costs by Source of Funds		
GPR	51,100	
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	\$	\$-20,600,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$-20,600,000</b>

NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	\$51,100	\$
NET CHANGE IN REVENUE	\$-20,600,000	\$

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