

Fiscal Estimate - 2005 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-3582/1	Introduction Number SB-336
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Subject
 Individual income tax credit for contributions to out of state

Fiscal Effect

State:

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

Local:

<input type="checkbox"/> No Local Government Costs		
<input type="checkbox"/> Indeterminate		
1. <input type="checkbox"/> Increase Costs	3. <input type="checkbox"/> Increase Revenue	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
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
2. <input type="checkbox"/> Decrease Costs	4. <input type="checkbox"/> Decrease Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	

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	

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Fiscal Estimate Narratives
DOR 9/21/2005

LRB Number	05-3582/1	Introduction Number	SB-336	Estimate Type	Original
Subject					
Individual income tax credit for contributions to out of state					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, up to \$3,000 of contributions to an EdVest II account per beneficiary may be deducted from Wisconsin adjusted gross income (WAGI) if the beneficiary of the account is the claimant, the claimant's child and dependent, the claimant's grandchild, the claimant's great-grandchild, or the claimant's niece or nephew. EdVest II is Wisconsin's version of a qualified tuition program that is authorized under section 529 of the federal Internal Revenue Code.

This bill creates a nonrefundable individual income tax credit for contributions to the section 529 plan of any state, multiplied by the individual's marginal tax rate. Filers who claim the current law deduction for EdVest II contributions cannot claim the credit for the same contributions.

According to information received from the College Savings Plans Network and the college savings plan programs in several states, there are approximately 6.9 million section 529 accounts in states other than Wisconsin and about 0.75% of these accounts are owned by Wisconsin residents. Therefore, Wisconsin residents own an estimated 52,000 section 529 accounts in states other than Wisconsin. The average annual contribution made to an EdVest account is \$2,100. Assuming that each of the 52,000 account owners annually contribute \$2,100 to an out-of-state account, under the proposed bill, \$109.2 million (52,000 X \$2,100) in contributions would be eligible for the credit. Assuming an average marginal tax rate of 5.5%, this would result in a decrease in income tax revenue of \$6 million (\$109.2 million X .055).

The Department will incur costs but they can be absorbed.

Long-Range Fiscal Implications

According to EdVest, there are many requests from EdVest account owners to move their contributions to the Virginia program, the largest section 529 program. This may be a sign that encouraging investments in the section 529 plans of other states could lead to a decrease in participation in the Wisconsin program over time.

The proposed bill would provide an incentive for Wisconsin residents to invest in section 529 plans in other states; as a result, the number of accounts held by Wisconsin taxpayers would increase. The number of these accounts is also expected to increase with the growing popularity of these accounts. If both of these scenarios occur, the revenue loss could grow substantially in future years.

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

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Subject			
Individual income tax credit for contributions to out of state			
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 funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
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, ets.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$-6,000,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-6,000,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-6,000,000	\$
Agency/Prepared By		Authorized Signature	Date
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