

Fiscal Estimate - 2005 Session

Original Updated Corrected Supplemental

LRB Number 05-3888/2 **Introduction Number** SB-435

Description
 Creating an income and franchise tax credit for the sales and use taxes paid for tangible personal property that is used in research or manufacturing by a biotechnology business, an institution of higher education, or a governmental unit

Fiscal Effect

State:

No State Fiscal Effect
 Indeterminate
 Increase Existing Appropriations Increase Existing Revenues Increase Costs - May be possible to absorb within agency's budget
 Decrease Existing Appropriations Decrease Existing Revenues Yes No
 Create New Appropriations Decrease Costs

Local:

No Local Government Costs
 Indeterminate

1. Increase Costs 3. Increase Revenue
 Permissive Mandatory Permissive Mandatory
2. Decrease Costs 4. Decrease Revenue
 Permissive Mandatory Permissive Mandatory

5. Types of Local Government Units Affected
 Towns Village Cities
 Counties Others
 School Districts WTCS Districts

Fund Sources Affected **Affected Ch. 20 Appropriations**

GPR FED PRO PRS SEG SEGS

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Fiscal Estimate Narratives

DOR 11/29/2005

LRB Number	05-3888/2	Introduction Number	SB-435	Estimate Type	Original
Description Creating an income and franchise tax credit for the sales and use taxes paid for tangible personal property that is used in research or manufacturing by a biotechnology business, an institution of higher education, or a governmental unit					

Assumptions Used in Arriving at Fiscal Estimate

This bill creates a nonrefundable income and franchise tax credit for the sales and use taxes paid on the purchase of tangible personal property including machines, equipment, animals, and other tangible personal property sold to a biotechnology business for use exclusively in research or sold primarily to a biotechnology business, an institution of higher education, or a governmental unit for use in research or manufacturing. Any unused credit may be carried forward and offset against tax for up to 15 years.

According to the US Department of Commerce, nationally, biotechnology firms spent about \$3.26 billion on machinery and equipment (M&E) in 2001. According to the same source, Wisconsin had 2.5% of biotechnology businesses in 2001. Assuming biotechnology expenditures on taxable M&E in Wisconsin were about the same as its share of biotechnology businesses, those businesses would have paid about \$4 million ($\$3.26 \text{ billion total national expenditures} \times 2.5\% \text{ WI share} \times 5\% \text{ sales tax}$) in state sales tax in 2001. Assuming these expenditures increase 6% annually and a 90% compliance rate, the credits claimed for sales taxes paid would be approximately \$5 million in FY07. This estimate may provide an upper limit to the tax decrease under the proposed credit.

A lower limit can be provided by data from Colorado, a state that has, according to the U.S. Department of Commerce, a comparable biotechnology sector. Colorado also has a comparable Gross State Product of \$200 billion compared to Wisconsin's \$212 billion and has a similar population size. Colorado refunds state sales taxes on expenditures for research and development in biotechnology, if funds are available under that state's TABOR law. In FY03, Colorado biotechnology businesses applied for refunds on expenditures of about \$17.8 million. Assuming these expenditures increase 6% annually and a 90% compliance rate, credits claimed for sales taxes paid would be approximately \$1 million in FY07.

Based on DOR data, only 75% of credits are used. Thus, The fiscal effect of the bill is estimated to be between \$750,000 ($\$1 \text{ million} \times 75\%$) and \$3.75 million ($\$5 \text{ million} \times 75\%$).

The above estimate does not include a credit for sales taxes paid on the purchase of laboratory animals, feed and equipment. Providing a credit for sales taxes paid on these items would decrease revenues by an additional \$150,000 - \$200,000 per year.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

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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, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$SeeText	\$
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