

Fiscal Estimate - 2005 Session

Original Updated Corrected Supplemental

LRB Number 05-1685/1		Introduction Number SB-52	
Subject Single sales factor based on creating and retaining jobs			
Fiscal Effect			
State:			
<input type="checkbox"/> No State Fiscal Effect			
<input checked="" type="checkbox"/> Indeterminate			
<input checked="" type="checkbox"/> Increase Existing Appropriations		<input type="checkbox"/> Increase Existing Revenues	
<input type="checkbox"/> Decrease Existing Appropriations		<input checked="" type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Create New Appropriations		<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget	
		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		<input type="checkbox"/> Decrease Costs	
Local:			
<input type="checkbox"/> No Local Government Costs			
<input type="checkbox"/> Indeterminate			
1. <input type="checkbox"/> Increase Costs		3. <input type="checkbox"/> Increase Revenue	
<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	
5. Types of Local Government Units Affected			
<input type="checkbox"/> Towns		<input type="checkbox"/> Village	
<input type="checkbox"/> Counties		<input type="checkbox"/> Cities	
<input type="checkbox"/> School Districts		<input type="checkbox"/> WTCS Districts	
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			
Agency/Prepared By		Authorized Signature	
DOR/ Pamela Walgren (608) 266-7817		Blair Kruger (608) 266-1310	
		Date	
		2/21/2005	

Fiscal Estimate Narratives

DOR 2/21/2005

LRB Number	05-1685/1	Introduction Number	SB-52	Estimate Type	Original
Subject					
Single sales factor based on creating and retaining jobs					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, most industries apportion income using a three-factor formula—the ratio of a corporation's in-state property, payroll and sales to its property, payroll and sales everywhere—to determine the portion of a multistate corporation's taxable income attributable to the state. The sales factor is double-weighted in the apportionment formula.

As provided in 2003 Act 37, beginning in 2006, a formula based only on the sales factor will be phased in. The sales factor would be weighted at 60% for taxable years beginning in 2006, at 80% for taxable years beginning in 2007 and at 100% for taxable years beginning in 2008.

This bill would allow businesses to apportion income to the state using only the sales factor if the business were to have a net gain of 100 employees in the state in any taxable year.

Under Act 37, some businesses will have tax increases and some businesses will have tax decreases from the required use of single sales factor apportionment. The estimate for SB 52 assumes that only businesses with a tax decrease would voluntarily use that method of apportionment in advance of its Act 37 effective date. Taxpayers with a tax decrease would have an estimated \$88 million of tax reduction under Act 37.

Information is not available to determine how many businesses and which businesses would have a net gain of 100 employees in the state to estimate the change in tax liability under single sales factor apportionment. Based on the corporate income and franchise tax sample compiled by the Department, if every business that would have reduced tax liability from single sales factor apportionment were to use that method to apportion income, the annualized fiscal effect would be to reduce income and franchise tax revenues by \$88 million when the general sales factor is weighted at 50%, \$77 million when the sales factor is weighted at 60%, and \$56 million when the sales factor is weighted at 80%. However, it is very unlikely that every business would have a net gain of 100 employees in a taxable year. A gain of 100 employees would be the equivalent of a business with 1,000 employees increasing net employees by 10%. It is expected that relatively few businesses would have that level of increase.

The Department anticipates one-time costs of \$27,000 for computer programming and program development. The bill does not provide funding for these costs.

Long-Range Fiscal Implications

ANNUALIZED FISCAL EFFECT

TY	2003 Act 37 Fiscal Effect		SB 52 Fiscal Effect	
	Sales Factor	Fiscal Effect	Reduced Tax Liability	Fiscal Effect
2005	50%	-	\$ (88,000,000)	\$ (88,000,000)
2006	60%	\$ (11,000,000)	(88,000,000)	(77,000,000)
2007	80%	(32,000,000)	(88,000,000)	(56,000,000)
2008	100%	(45,000,000)		

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

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 Updated
 Corrected
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Subject			
Single sales factor based on creating and retaining jobs			
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 costs of \$27,000 for computer programming and development.			
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		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$	\$
Agency/Prepared By		Authorized Signature	Date
DOR/ Pamela Walgren (608) 266-7817		Blair Kruger (608) 266-1310	2/21/2005