

Fiscal Estimate - 2007 Session

☒ Original
 ☐ Updated
 ☐ Corrected
 ☐ Supplemental

LRB Number 07-3759/1	Introduction Number AB-0671
Description Excluding from taxable income gains from a Wisconsin business	
Fiscal Effect State: <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations </div> <div style="width: 33%;"> <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues </div> <div style="width: 33%;"> <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <div style="display: flex; justify-content: space-around;"> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No </div> <input type="checkbox"/> Decrease Costs </div> </div> Local: <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"> <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> 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 </div> <div style="width: 33%;"> 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 </div> <div style="width: 33%;"> 5. Types of Local Government Units Affected <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"> <input type="checkbox"/> Towns <input type="checkbox"/> Counties <input type="checkbox"/> School Districts </div> <div style="width: 33%;"> <input type="checkbox"/> Village <input type="checkbox"/> Others <input type="checkbox"/> WTCS Districts </div> <div style="width: 33%;"> <input type="checkbox"/> Cities <input type="text" value="0"/> </div> </div> </div> </div>	

Fiscal Estimate Narratives

DOR 1/9/2008

LRB Number	07-3759/1	Introduction Number	AB-0671	Estimate Type	Original
Description					
Excluding from taxable income gains from a Wisconsin business					

Assumptions Used in Arriving at Fiscal Estimate

Under current Wisconsin law, individuals may exclude 60% of net long-term capital gains. Under this bill, an individual; an individual partner or member of a partnership, limited liability company, or limited liability partnership; or an individual shareholder of a tax-option corporation may exclude the capital gain, not to exceed \$10 million, realized from the sale of any asset held more than one year if the claimant meets certain requirements. The requirements are: 1) immediately deposit the gain in a segregated account in a financial institution, 2) invest all of the proceeds in a Wisconsin business, as defined in the bill, within 180 days, and 3) notify the Department of Revenue (DOR) on a form prepared by DOR that the claimant will not declare the gain. The exemption is first applicable for tax year 2008. The basis of the replacement asset would be calculated by subtracting the excluded gain from the cost of the replacement asset.

There is inherent variability in capital gain income and investment decisions at the individual level. Additionally a number of interactions with other tax incentives may impact the fiscal effect. Some taxpayers with capital gains are otherwise able to reduce their taxable income to the point that additional deductions may not be worthwhile. Additionally, federal tax rules will have a non-negligible effect on taxpayers' investment decisions. Since the extent to which taxpayers will take advantage of this exemption is not known, the revenue loss is inestimable.

However, using the 2005 Individual Income Tax Sample, it is estimated that approximately \$170 million of individual income tax liability was attributable to the non-excludable portion of long term capital gains in taxable year 2005. If it is assumed that taxpayers with Wisconsin income or long-term capital gains of less than \$150,000 are unlikely to take advantage of this exemption for reasons listed above, the pool of potential participants is approximately 5,000 individuals. Those individuals reported \$3.3 billion of long-term capital gains and paid \$87 million in tax on the non-excludable gain. As an illustration, if it is assumed that half of those individuals invest their gains in Wisconsin businesses, the pool of likely investors is approximately 2,500 individuals and the potential fiscal effect of the bill is \$44 million annually.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original
 ☐ Updated
 ☐ Corrected
 ☐ Supplemental

LRB Number 07-3759/1		Introduction Number AB-0671	
Description Excluding from taxable income gains from a Wisconsin business			
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			
<input type="checkbox"/> State Operations - Salaries and Fringes	\$	\$	
<input type="checkbox"/> (FTE Position Changes)			
<input type="checkbox"/> State Operations - Other Costs			
<input type="checkbox"/> Local Assistance			
<input type="checkbox"/> Aids to Individuals or Organizations			
<input type="checkbox"/> TOTAL State Costs by Category	\$	\$	
B. State Costs by Source of Funds			
<input type="checkbox"/> GPR			
<input type="checkbox"/> FED			
<input type="checkbox"/> PRO/PRS			
<input type="checkbox"/> 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	
<input type="checkbox"/> GPR Taxes	\$	\$	
<input type="checkbox"/> GPR Earned			
<input type="checkbox"/> FED			
<input type="checkbox"/> PRO/PRS			
<input type="checkbox"/> SEG/SEG-S			
<input type="checkbox"/> TOTAL State Revenues	\$	\$	
NET ANNUALIZED FISCAL IMPACT			
	State	Local	
NET CHANGE IN COSTS	\$	\$	
NET CHANGE IN REVENUE	\$SeeText	\$	
Agency/Prepared By		Authorized Signature	Date
DOR/ Bradley Caruth (608) 261-8984		Rebecca Boldt (608) 266-6785	1/9/2008