



State of Wisconsin

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STEPHEN R. MILLER
CHIEF

May 12, 2010

MEMORANDUM

To: Representative Vos

From: Joseph T. Kreye, Sr. Legislative Attorney, (608) 266-2263

Subject: Technical Memorandum to **2009 AB 969** (LRB-4148/1) by **DOR**

We received the attached technical memorandum relating to your bill. This copy is for your information and your file.

If you wish to discuss this memorandum or the necessity of revising your bill or preparing an amendment, please contact me.

MEMORANDUM

April 28, 2010

TO: Joseph Kreye
Legislative Reference Bureau

FROM: Rebecca Boldt
Department of Revenue

SUBJECT: Technical Memorandum on AB 969 (LRB 4148/1) – Deduction for Full-time Employees

The Department has the following technical concerns with the above-referenced bill:

- The bill provides an exemption in an amount based on the number of full-time employees during the taxable year. However, it is unclear how the number would be calculated as the number of full-time employees may fluctuate during the taxable year. The author may wish to clarify this.
- The bill provides the exemption for every full-time employee of the taxpayer, including employees in other states, and for combined groups with foreign subsidiaries potentially for employees in other countries. Is this the author's intent?
- May short-year taxable years qualify for this exemption? If so, should the exemption be prorated per the number of months?
- The bill does not offer any parameters for determining what employees would qualify. Does the employee have to be full-time for the entire taxable year? An employer could hire a person for full-time work in December of the taxable year. Would that employee qualify even though the wages for that person may not even be \$1,000 or the person may be laid off in January? Or if the employer had 20 full-time employees on January 1 but due to problems had to reduce staff to ten employees on July 1, is the employer allowed a \$20,000 exemption or a \$10,000 exemption?
- Sections 71.26(1) and 71.45(1) provide exemptions for all income of specific classes of taxpayers, whereas the bill provides a modification of the definition of taxable income for most corporate taxpayers. Modifications to taxable income for corporations are generally made in sections 71.26(2) (and 71.45(2) for insurance companies) and reported on tax returns as a modification. In contrast, an exemption from income would not be reported on the Wisconsin tax return; instead the taxpayer would reduce the amount on Line 1, thereby making an exemption less transparent. It is recommended that the new section providing for a subtraction from income be created either under s. 71.26(2)a. and 71.45(2)a.

If you have any questions regarding this technical memorandum, please contact Michael Oakleaf at 261-5173 or via email at Michael.oakleaf@revenue.wi.gov.

cc: Rep. Vos