

Fiscal Estimate Narratives
DOR 10/12/2011

LRB Number	11-2471/1	Introduction Number	SB-201	Estimate Type	Original
Description Relating to: an income and franchise tax credit for hiring unemployed individuals					

Assumptions Used in Arriving at Fiscal Estimate

The bill creates an income and franchise tax credit equal to \$5,000 for each unemployed state resident hired by the taxpayer in the taxable year to work a full-time job at the taxpayer's business in this state. The maximum aggregate amount of all such credits that a taxpayer may claim for all taxable years is \$250,000. Unused credit may be carried forward for 15 years.

Fiscal Estimate

According to the US Census Bureau, there were 115,000 employer firms in Wisconsin in 2008 (the most recent year available). This is the pool of potential claimants for the credit under the bill. To provide context to the estimate, if each of these firms hired one eligible individual, it would generate claims of \$575.5 million (115,000 x \$5,000). The maximum credit that a claimant may claim for all years is \$250,000. To reach the maximum, a firm would need to hire 50 eligible individuals (\$250,000 maximum/\$5,000 credit per eligible individual).

The federal HIRE Act provided a social security tax exemption for employers that hired individuals that had been unemployed for eight weeks. Based on 2010 data from the US Treasury Department on the number of people hired in Wisconsin that were eligible for the HIRE Act exemption, adjusting for expectations of changes in the unemployment rate over time, and assuming that 50% of the credit that is claimed in a year is used to offset tax liability, the bill would result in a reduction in revenue of an estimated \$131.6 million in FY 2012, \$570.4 million in FY 2013, \$669.8 million in FY 2014, \$571.8 million in FY 2015 and \$563.6 million in FY 2016.

The above estimate includes an adjustment to remove unemployment in the manufacturing sector from the calculation of the fiscal effect for tax years 2014 and after. The combination of single sales factor apportionment and the qualified production activities credit created in 2011 Act 32 will significantly reduce the tax liability of Wisconsin manufacturers and therefore reduce the amount of tax liability reduction available from the credit under the bill for these claimants.

In addition, the above fiscal estimate includes an adjustment to account for firms that claim up to \$250,000, the maximum amount of credit allowed for each claimant for all tax years. It is anticipated that the fiscal effect would peak in FY 2015, and then decrease as more employers reach the maximum credit amount and as firms that had carried forward credits from previous years use those credits to offset taxes in later years.

The fiscal effect would be higher (lower) to the extent that more (fewer) eligible individuals are hired. The fiscal effect would be lower to the extent that employers that are eligible for the credit under the bill have reduced their tax liability with other tax provisions available under current law.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2011 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description			
Relating to: an income and franchise tax credit for hiring unemployed individuals			
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	\$	\$	
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	\$See Text	\$	
Agency/Prepared By		Authorized Signature	Date
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