

Fiscal Estimate - 2013 Session

- Original
 Updated
 Corrected
 Supplemental

| | | |
|---|--|-------------|
| LRB Number 13-3545/1 | Introduction Number AB-0844 | |
| Description Combined reporting of income from businesses incorporated in foreign jurisdictions considered tax havens and granting rule-making authority | | |
| Fiscal Effect | | |
| State: | | |
| <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 | <input checked="" type="checkbox"/> Increase Existing Revenues <input type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Yes <input 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 <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 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 | |
| 5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts | | |
| Fund Sources Affected | | |
| <input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS | | |
| Affected Ch. 20 Appropriations | | |
| Agency/Prepared By | Authorized Signature | Date |
| DOR/ Michael Oakleaf (608) 261-5173 | Michael Wagner (608) 266-6785 | 3/3/2014 |

Fiscal Estimate Narratives

DOR 3/3/2014

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|---|-----------|---------------------|---------|---------------|----------|
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Assumptions Used in Arriving at Fiscal Estimate

Under current law, the income or loss of a foreign corporation that is engaged in the unitary business of a combined group is not included in the combined group's income if 80% or more of its income is active foreign income.

Under the bill, for taxable years beginning after December 31, 2013, the US-sourced income or loss of a member of the unitary business that is incorporated in certain foreign jurisdictions must be included in the combined group's income. The foreign jurisdictions are Andorra, Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Bahrain, Barbados, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, the Cook Islands, Costa Rica, Cyprus, Dominica, Gibraltar, Grenada, Guernsey-Sark-Alderney, Hong Kong, Ireland, the Isle of Man, Jersey, Jordan, Lebanon, Liberia, Liechtenstein, Luxembourg, Macau, Malta, the Marshall Islands, Mauritius, Monaco, Montserrat, Nauru, the Netherlands Antilles, Niue, Panama, Samoa, San Marino, Seychelles, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Switzerland, Tonga, the Turks and Caicos Islands, the U.S. Virgin Islands, and Vanuatu.

Fiscal Estimate

The Department does not have data that would allow it to provide a definitive estimate of the provision under the bill. Because the provisions being estimated by the states used in this estimate were not identical, and because tax laws and economic conditions differ from state to state, this estimates should be considered speculative. The actual fiscal effect could be higher or lower.

Several other states have recently estimated the fiscal effect of similar, but not identical, tax haven provisions. The estimates have ranged from 5.0% of total corporate revenue in the case of California to 1.13% of total corporate tax revenue in Minnesota. The average revenue impact of states that have recently considered enacting similar provisions is 3.78%.

The net tax amount of a given combined group could increase or decrease under the bill. For example, the net tax of the combined group could be reduced to the extent that the foreign subsidiary contributes losses instead of income to the combined group's total income. In addition, because the foreign subsidiary's sales would be added to the denominator of the sales factor, and assuming that they would have little or no Wisconsin sales to add to the numerator, the apportionment factor for the group would be lower under the bill, which may result in lower net tax for the group even if the foreign subsidiary contributes income rather than losses to the group's total income. Finally, for combined group members the Manufacturing and Agriculture Credit is limited to the member's taxable income multiplied by the credit rate effective for the taxable year. Therefore, for combined groups that have both foreign subsidiaries in one of the jurisdictions listed in the bill as a tax haven and manufacturing property in Wisconsin, an increase in the Manufacturing and Agriculture Credit could largely offset any increase in net taxes that would otherwise result from an increase in income resulting from inclusion of the foreign subsidiary.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 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, 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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