Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2015 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 15-2313/1	Introduction Number SB-211

Description
Making companies that outsource jobs ineligible for state tax benefits, grants, and loans, providing an exemption from rule-making procedures, and granting rule-making authority

Fiscal Effect

State:

☐ No State Fiscal Effect
☒ Indeterminate

- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☐ Decrease Existing Revenues
- ☐ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☐ No
- ☐ Decrease Costs

Local:

☐ No Local Government Costs
☐ Indeterminate

1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
   ☐ Towns ☐ Village ☐ Cities
   ☐ Counties ☐ Others
   ☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 7/23/2015

LRB Number **15-2313/1**	Introduction Number **SB-211**	Estimate Type **Original**
Description Making companies that outsource jobs ineligible for state tax benefits, grants, and loans, providing an exemption from rule-making procedures, and granting rule-making authority		

Assumptions Used in Arriving at Fiscal Estimate

This bill creates the Wisconsin Job Development and Retention Commission, which is to determine when a person who is receiving state tax benefits, loans, or grants is outsourcing work. A person who operates a business in Wisconsin and who outsources work to another state or country may not receive any grant, loan, or tax benefit from this state, except for the property tax exemption on manufacturing equipment, for five years following the year in which the person has outsourced work to another state or country.

Fiscal Estimate

This fiscal estimate pertains only to the provisions of the bill that deny any income, franchise, and property tax deductions, exemptions, exclusions, or credits to businesses that outsource work to another state or country. Any enterprise with multistate operations or out-of-state suppliers could be affected by this bill. In addition to the incentives and exemptions included in the Department of Revenue's Summary of Tax Exemption Devices report (available at https://www.revenue.wi.gov/ra/15sumrpt.pdf) the bill would also deny deductions for ordinary and necessary businesses expenses, such as cost of goods sold, wages and benefits, and depreciation, that are deducted on the outsourcing business' federal return and that are included by reference in Chapter 71.

There is no reliable data source on outsourcing of work from Wisconsin to another state or country, making a definitive fiscal estimate impossible. Similarly, since the Wisconsin Job Development and Retention Commission will determine the definition of outsourcing via administrative rule, predicting how the Commission will define outsourcing is not possible. The bill could result in an increase in income and franchise tax revenue of an unknown amount to the extent that a business that is denied any income or franchise tax credit, deduction, exclusion, or exemption pays the resulting increased tax liability. However, it is also conceivable that a business that faces the loss of all tax credits, deductions, exemptions, and exclusions for five years as proposed under the bill could cease to do business in the state. In this case, there would be a loss of income and franchise tax revenue of an unknown amount.

The Department does not possess information that cross-references the number of businesses that are currently outsourcing workforce to another state/country and their property tax-exempt status. As such, it is not feasible to estimate the fiscal impact of the property tax provisions of the bill. It is likely that the businesses would switch to in-state workforce if the net costs of newly imposed property tax and the cost savings from outsourcing to another state/country outweigh the transaction costs for switching to in-state workforce. However, it is also possible that, if businesses consider their currently outsourced labor irreplaceable with in-state labor for some reason, the businesses may potentially move out of the state of Wisconsin.

Long-Range Fiscal Implications