

Fiscal Estimate - 2017 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 17-5333/1	Introduction Number SB-764	
Description updating references to the Internal Revenue Code relating to certain individual income tax provisions, limiting the income tax deduction for certain tuition payments, clarifying the duties of the College Savings Program Board, a sales and use tax exemption for title holding entities for certain tax-exempt charitable organizations, and computing depletion for income and franchise tax purposes		
Fiscal Effect		
State: <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
Local: <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue 5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities 2. <input type="checkbox"/> Decrease Costs 4. <input checked="" type="checkbox"/> Decrease Revenue <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <u>Baseball Districts</u> <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
Fund Sources Affected Affected Ch. 20 Appropriations <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		
Agency/Prepared By DOR/ Bradley Caruth (608) 261-8984	Authorized Signature Jamie Adams (608) 266-6785	Date 2/7/2018

Fiscal Estimate Narratives

DOR 2/7/2018

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Description updating references to the Internal Revenue Code relating to certain individual income tax provisions, limiting the income tax deduction for certain tuition payments, clarifying the duties of the College Savings Program Board, a sales and use tax exemption for title holding entities for certain tax-exempt charitable organizations, and computing depletion for income and franchise tax purposes					

Assumptions Used in Arriving at Fiscal Estimate

This bill adopts certain provisions of the Internal Revenue Code (IRC) that were enacted federally as part of the Tax Cuts and Jobs Act in December, 2017. It also disallows the private school tuition subtraction for amounts paid from a college savings account, clarifies the tax treatment of depletion, and provides a sales and use tax exemption for certain federally tax exempt entities.

INTERNAL REVENUE CODE UPDATE

The provisions in this bill relate to the following provisions of the federal act:

1. The recharacterization of traditional individual retirement accounts (IRAs) as Roth IRAs, and vice versa. Under the federal changes, recharacterization may not be used to unwind a conversion of a traditional IRA to a Roth IRA.

DOR expects this provision to result in a minimal annual revenue increase.

2. Retirement plan offsets. The federal act extends the period during which retirement plan loan offsets may be rolled over into another retirement plan on a tax-free basis.

DOR expects this provision to have a negligible revenue effect.

3. The deductibility of travel expenses incurred by a member of Congress. The federal act prohibits a member of Congress from deducting living expenses paid or incurred while away from home as an ordinary and necessary expense.

DOR expects this provision to result in a minimal annual revenue increase.

4. The discharge of certain student loan indebtedness. Under federal law, the forgiveness of student loans is not considered taxable income if the student works for a specified period in certain professions for certain employers. The federal act extends this exclusion to student loan discharges resulting from the student's death or permanent and total disability. Under federal law, this provision sunsets and does not apply to taxable years beginning after December 31, 2025.

DOR expects this provision to result in a minimal annual revenue loss.

5. Allowance of certain distributions from qualified tuition programs, commonly known as 529 accounts, to be used for tuition expenses to enroll in or attend an elementary or secondary public, private, or religious school. Wisconsin's 529 college savings program currently allows distributions to be used only for qualified higher education expenses.

DOR expects this provision to result in a minimal annual revenue loss.

PRIVATE SCHOOL TUITION SUBTRACTION

Under the bill, the current law subtraction for certain amounts paid by an individual for tuition expenses for his or her dependent pupil to attend an eligible elementary or secondary school may not be claimed if the source of the payment is a 529 account.

DOR expects this provision to result in a minimal annual revenue increase.

DEPLETION CLARIFICATION

Under current law relating to the computation of depletion for income and franchise tax purposes, the IRC means the federal IRC in effect for the year in which the property subject to depletion is placed in service. This bill modifies current law to clarify that it applies to the property subject to depletion regardless of when the property is placed in service.

This provision is a clarification of current law and, as such, DOR does not anticipate a fiscal effect.

SALES AND USE TAX EXEMPTION

The bill also creates a sales and use tax exemption for property, items, and services purchased by an entity that is tax-exempt under the IRC and that is organized for the exclusive purpose of holding title to property, collecting income from that property, and turning over the entire amount of that income, less expenses, to an entity that is also exempt from state sales and use taxes under an exemption that applies to certain charitable organizations. This provision takes effect retroactively to September 1, 2017.

Based on IRS data for 501(c)2 organizations, the department estimates the exemption will result in a sales tax revenue decrease of \$120,000 on an annual basis. This amount may vary from year to year based on the timing of construction projects and overall spending levels by such organizations. Local sales tax revenues will decrease by a minimal amount.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2017 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, etc.)		
	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		
DOR/ Bradley Caruth (608) 261-8984	Jamie Adams (608) 266-6785	2/7/2018