

Fiscal Estimate Narratives

DOR 12/6/2019

| | | | | | |
|--|------------------|---------------------|----------------|---------------|-----------------|
| LRB Number | 19-3366/1 | Introduction Number | AB-0642 | Estimate Type | Original |
| Description creating a nonrefundable individual income tax credit based on the federal tax credit for certain expenses for household and dependent care services and sunsetting a deduction based on the same expenses | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

Under current federal law, individuals may claim a nonrefundable income tax credit for child and dependent care expenses. Allowable child and dependent care expenses generally include costs for in-home care or daycare, nursery school or preschool programs, and before-school and after-school care for school-age children.

A claimant's allowable expenses generally may not exceed the earned income of the claimant or the claimant's spouse. Depending on the claimant's adjusted gross income, the credit may be worth between 20 percent and 35 percent of the claimant's allowable expenses, up to a maximum annual amount of \$3,000 if there is one qualifying dependent and up to \$6,000 if there are two or more qualifying dependents.

Under current Wisconsin law, individuals may claim an income tax deduction based on their qualifying child and dependent care expenses. The state deduction has the same \$3,000 or \$6,000 qualifying expenses limitation that applies federally.

Effective for tax year 2020, this bill creates a nonrefundable state income tax credit equal to the federal tax credit for expenses for household and dependent care services. The new Wisconsin credit may not be claimed by a part-year or nonresident of this state. The bill also sunsets the existing state income tax deduction for dependent care expenses.

Based on simulations using 2017 individual income tax returns, inflated for income levels and law changes, removing the current law deduction will increase revenue by \$18.1 million, while subsequently creating the new credit will reduce revenue by \$54.3 million. The net impact of the bill will be to reduce revenue by approximately \$36.2 million in fiscal year 2021 and annually thereafter.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2019 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

| | | |
|---|------------------------------------|--|
| LRB Number 19-3366/1 | Introduction Number AB-0642 | |
| Description creating a nonrefundable individual income tax credit based on the federal tax credit for certain expenses for household and dependent care services and sunseting a deduction based on the same expenses | | |
| 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 | \$ | \$-36,200,000 |
| GPR Earned | | |
| FED | | |
| PRO/PRS | | |
| SEG/SEG-S | | |
| TOTAL State Revenues | \$ | \$-36,200,000 |
| NET ANNUALIZED FISCAL IMPACT | | |
| | <u>State</u> | <u>Local</u> |
| NET CHANGE IN COSTS | \$ | \$ |
| NET CHANGE IN REVENUE | \$-36,200,000 | \$ |
| Agency/Prepared By | Authorized Signature | Date |
| DOR/ Bradley Caruth (608) 261-8984 | Michael Oakleaf (608) 261-5173 | 12/6/2019 |