

Fiscal Estimate Narratives
DOR 1/31/2020

LRB Number 19-5365/1	Introduction Number AB-0780	Estimate Type Original
Description creating an income and franchise tax deduction for interest on a loan secured by agricultural real estate		

Assumptions Used in Arriving at Fiscal Estimate

The bill allows banks to deduct the interest received from loans for real property located in Wisconsin that is substantially used for the production of agricultural products or a single family residences in Wisconsin located outside of a metropolitan statistical area and in an area with a population of nor more than 2,500.

Fiscal Estimate

Using mortgage information by county from the Census Bureau, 26.79% of Wisconsin mortgages are for houses outside of a Metropolitan Statistical Area and could be eligible for the tax deduction. The Wisconsin's Banker's Association provides information on how much interest banks received in a given year by type of loan. Taking 26.79% of residential interest and all of the interest from farmland loans yields an estimate of interest that could be deducted under the bill. After factoring this interest deduction into the tax returns of banks, the bill would reduce income and franchise tax revenue by an estimated \$5.5 million in FY 2020, \$21.9 million in FY 2021, and \$21.9 million in FY 2022.

In addition, the bill would reduce economic development surcharge revenue by an estimated \$20,600 in FY 2020, \$82,000 in FY 2021, and \$81,600 in FY 2022.

Census data do not allow us to isolate mortgages in communities with populations smaller than 2,500 people. The estimate could be smaller to the extent that mortgages are in non-MSA locations with populations greater than 2,500.

Costs to administer the bill are minimal and can be absorbed.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2019 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description creating an income and franchise tax deduction for interest on a loan secured by agricultural real estate			
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		\$	\$-21,900,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S (25.49)			-81,600
TOTAL State Revenues		\$	\$-21,981,600
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-21,981,600	\$
Agency/Prepared By		Authorized Signature	Date
DOR/ Zach Petersen (608) 267-2428		Jamie Adams (608) 266-6785	1/31/2020