

1997-98 SESSION
COMMITTEE HEARING
RECORDS

Committee Name:

Joint Survey Committee
on Tax Exemptions
(JSC-TE)

Sample:

- Record of Comm. Proceedings
- 97hrAC-EdR_RCP_pt01a
- 97hrAC-EdR_RCP_pt01b
- 97hrAC-EdR_RCP_pt02

- Appointments ... Appt
-
- Clearinghouse Rules ... CRule
-
- Committee Hearings ... CH
-
- Committee Reports ... CR
-
- Executive Sessions ... ES
-
- Hearing Records ... HR
- 97hr_sb0436
- Miscellaneous ... Misc
-
- Record of Comm. Proceedings ... RCP
-

Senate Bill 436

IT Survey Comm on Tax Exemptions

97-98

State of Wisconsin



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APPENDIX TO

1997 SENATE BILL 436

Report of the Joint Survey Committee on Tax Exemptions

STATE OF WISCONSIN

REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS

1997 SENATE BILL 436

[Introduced by Senator Burke, cosponsored by Representative Gard, by request of Governor Tommy G. Thompson.]

General Nature of Proposal

This Bill is the 1997-99 Budget Adjustment Bill that provides and adjusts levels of funding for various state programs and also creates and revises state programs. The subject of this report is those provisions of the Bill relating to tax exemptions.

1. Education Income Tax Credits and Deductions

Under this Bill, for taxable year 1998, individuals would be able to credit against their income tax liability amounts spent for certain educational expenses at public schools, certain private schools and home-based educational programs for grades kindergarten through 12 (K-12). The income tax credit would be refundable so that the amounts of credits in excess of income taxes owed would be refunded to the taxpayer by the state. Educational expenses that would be eligible for the credit include amounts spent for tutoring, summer courses, transportation costs paid to others, nonreligious instructional materials and up to \$500 per year for computers and related educational materials to be used in the claimant's home and not used in a trade or business.

The maximum credit that would be allowed under the Bill would be \$1,000 per child per year up to a maximum of \$2,000 per family per year. A nonresident or part-year resident of Wisconsin would be eligible to claim a lesser, prorated credit. The credit would not be allowed to a claimant if, for a married couple filing jointly, his or her federal adjusted gross income exceeds \$30,000 to \$60,000, depending upon the number of children the claimant has. For a married couple filing separate returns, the maximum federal adjusted gross income limitation would be \$15,000 to \$30,000, depending upon the number of children the claimant has. For a single person or a married person filing as head of household, the income limit would be an adjusted gross income of \$25,000 to \$55,000, depending upon the number of children the claimant has.

The Bill would also authorize individuals to subtract from their income for tax purposes amounts paid for "educational expenses," as defined in the tax credit provisions of the Bill discussed immediately above. The subtraction would not be allowed for expenses claimed as an income tax credit under the provisions of the Bill. The maximum amount of the subtraction would be \$1,500 per child per year. The maximum amount of the subtraction would be phased down to \$0 as the claimant's adjusted gross income increases. For a married claimant who files a joint return, the credit would be phased out as federal adjusted gross income increases above \$80,000 and would be completely phased out at \$100,000. For a married claimant who files a separate

return, the credit would begin phasing out at \$40,000 and would be completely eliminated at \$50,000. For a single filer or married person filing as head of household, the credit would begin phasing out at an adjusted gross income of \$50,000 and would be completely eliminated at \$60,000.

The Bill would also create a higher education individual income tax deduction for amounts paid for tuition to attend any university, college, technical college or proprietary school located in Wisconsin, or for tuition to attend a public vocational school or a public institution of higher education in Minnesota under the state tuition reciprocity program. The maximum amount of the deduction would be \$3,000 per student per year and could be claimed for tuition expenses of the claimant or of the claimant's child. The maximum amount of the deduction would decrease down to \$0 as the claimant's income rises, as with the same income thresholds and limitations in the income tax deduction discussed immediately above.

2. Property Tax Exemption of Computers

This Bill would create a property tax exemption for mainframe computers, minicomputers, personal computers, networked personal computers, servers, terminals, monitors, disk drives, electronic peripheral equipment, tape drives, printers, basic operational programs, systems software, prewritten software and custom software, effective with property assessed on January 1, 1999. Fax machines, copiers, equipment with embedded computerized components or telephone systems, including equipment used to provide telecommunications services would not be exempt from the tax. The Bill would establish annual aid payments beginning in year 2000 for municipalities, counties, school districts and technical college districts equal to the amount of property taxes paid for the 1998 assessment on computers, related equipment and software. A payment would be required to be made annually, on or before the first Monday in May.

3. Internal Revenue Code Update

The Bill would provide that state individual income and corporation and business tax provisions be referenced to the Federal Internal Revenue Code in effect on December 31, 1997. Current state tax provisions refer to the code in effect on December 31, 1996 and to provisions of the Federal Taxpayer Relief Act of 1997 that took effect before January 1, 1998. The effect of the Bill would be to adopt the provisions of the Taxpayer Relief Act that took effect on January 1, 1998 and thereafter.

Legality Involved

There are no questions of legality involved.

Fiscal Effect Upon the State and Its Subdivisions

A \$64.7 million appropriation from general purpose revenues is made by the Bill for fiscal year 1998-99 to fund the K-12 educational expenses credit program. It is estimated that the K-12 educational expenses deduction would reduce general fund revenues by \$18.1 million in 1998-99. It is estimated that the higher education tuition expenses deduction would reduce general fund revenues by \$18.6 million in 1998-99.

The Bill would establish a state-funded computer escrow fund to provide moneys for computer aid payments to municipalities, counties, school districts and technical college districts effective January 1, 1999. Sixty-four million dollars would be transferred from the general fund to the computer escrow fund on or before June 30, 1999.

The Legislative Fiscal Bureau estimates the effect of the Internal Revenue Code Updates relating to tax exemptions as follows:

<u>Provision</u>	<u>1997-98</u>	<u>1998-99</u>
<i>Individual Income Tax</i>		
Individual Retirement Accounts:		
Increase Income Amounts and Create Roth IRAs	-\$2,700,000	-\$2,500,000
Education IRAs	-1,100,000	-4,600,000
IRA Withdrawals for Education Expenses	-550,000	-1,450,000
Deduction for Student Loan Interest	<u>-100,000</u>	<u>-500,000</u>
Individual Income Tax Total	-\$4,450,000	-\$9,050,000

Public Policy Involved

The tax exemption provisions of the Bill are good public policy. However, state funding of the property tax exemption for computers for the revenue loss to local governments should be made a permanent sum sufficient appropriation.

3/27/98

JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS

State of Wisconsin



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