1999 DRAFTING REQUEST

Bill

Received: **01/15/99**

Received By: **jkreye**

Wanted: **As time permits**

Identical to LRB:

For: **Mark Pocan (608) 266-8570**

By/Representing: **Glen**

This file may be shown to any legislator: **NO**

Drafter: **jkreye**

May Contact:

Alt. Drafters:

Subject: **Tax - corp. inc. and fran.**

Extra Copies:

Topic:

Deny corporate income tax deduction for excessive compensation.

Instructions:

See Attached

Drafting History:

Vers.	Drafted	Reviewed	Typed	Proofed	Submitted	Jacketed	Required
/1	jkreye 01/21/99	jgeller 01/22/99	hhagen 01/22/99	_______ _______ _______ _______	lrb_docadmin 01/22/99	gretskl 02/3/99 lrb_docadmin 02/3/99	State

FE Sent For:

03-04-99

<END>

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LRB-1809

1999 DRAFTING REQUEST

Bill

Received: **01/15/99**

Wanted: **As time permits**

For: **Mark Pocan (608) 266-8570**

This file may be shown to any legislator: **NO**

May Contact:

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Received By: **jkreye**

Identical to LRB:

By/Representing: **Glen**

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LEGISLATIVE REFERENCE BUREAU

BILL REQUEST FORM

Legal Section, 5th Floor, 100 N. Hamilton St.
(608) 266-3561

Use of this form is optional. It is often helpful to talk directly with the LRB attorney who will draft the bill. Use this form only for **BILL** drafts. Attach more pages if necessary.

Date of request: Jan. 14, 1999	Legislator or agency requesting this draft: Rep. Pocan
Name/phone number of person submitting request:	266-8570
Persons to contact for questions about this draft (names and phone numbers please):	Glenn: 266-8570
Describe the problem, including any helpful examples. How do you want to solve the problem?	Draft a WI version of the Federal Income Equity Act of 1997 (HR 687) amend 71.26(3)(e)
If you know of any statute sections that might be affected, please list them or provide a marked (not re-typed) copy.	

Please attach a copy of any correspondence or material that may help us. You may also attach a marked (not re-typed) copy of any LRB draft, or provide its number (e.g., 1997 LRB-2345/1 or 1995 AB-67):

Requests are confidential unless stated otherwise.

May we tell others that we are working on this for you? ☐ YES ☐ NO

If yes, anyone who asks? ☐ YES ☐ NO

Any legislator? ☐ YES ☐ NO ☐ ONLY the following persons:

Do you consider this urgent? ☐ YES ☒ NO If yes, please indicate why:

Is this request of higher priority than other pending request(s) you have made?

☐ YES ☒ NO If yes, please sign your name here:

BILLRQUST (rev.11/98 wlj)

Income Equity Act of 1997: Introduction of Legislation House Press Gallery, February 11,1997

Thank you for having Congressman Olver and me here to announce the introduction of two pieces of legislation that will help to combat the persistent income gap between the rich and poor in our nation.

As yesterday's Economic Report of the President demonstrated, this gap has narrowed in recent years, in large part due to the economic polices our country has implemented since 1990. I am proud to have fought to pass the minimum wage increases of 1990 and 1996, and the 1993 expansion of the Earned Income Tax Credit.

As chairman of the House Budget Committee in 1993, I authored the plan of deficit reduction and investment that has helped our economy grow. This plan included a major expansion of the Earned Income Tax Credit, which helps keep working Americans out of poverty and off the welfare rolls. In 1995, as Ranking Democrat on the Budget Committee, I worked to protect the EITC from cuts and I fought for a long-overdue increase in the minimum wage.

Policies like the EITC have helped reduce the income gap from its level in 1993, the highest ever recorded. However, as the line graph I have distributed demonstrates, we still have a long way to go to correct the tremendous inequality that has developed since the early seventies. We must keep working to ensure that the current drop becomes a long-term trend and not a brief exception.

For this reason, I am pleased today to introduce the Income Equity Act of 1997. This legislation seeks to reduce the income gap by encouraging corporate responsibility. The Income Equity Act would end our government's practice of subsidizing excessive executive pay through the tax code -- it would deny tax deductions for executive compensation that exceeds 25 times the company's lowest paid employee.

This bill is not an attack on those at the top of the income ladder. My goal is not to pull them down, but to raise up those at the bottom. My bill won't limit executive pay, and it won't tell companies how much to pay their employees. It will, however, send a strong message that if a company wants to receive tax deductions for executive pay, it will have to examine the fairness of its worker pay.

My legislation is a message of the values our government should promote -- that those who work on the factory floor are as important to a company as those who work in the executive suite. The Income Equity Act will show that the American people expect responsible corporate citizenship in the form of fair worker pay.

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GPO's PDF version of this bill | References to this bill in the Congressional Record | Link to the Bill Summary & Status file. | Full Display - 2,788 bytes.[Help]

Income Equity Act of 1997 (Introduced in the House)

HR 687 IH

105th CONGRESS

1st Session

H. R. 687

To amend the Internal Revenue Code of 1986 to deny employers a deduction for payments of excessive compensation.

IN THE HOUSE OF REPRESENTATIVES

February 11, 1997

Mr. SABO (for himself, Mr. CONYERS, Mr. OLVER, Ms. NORTON, Mr. HINCHEY, Mr. SANDERS, Mr. TOWNS, Mr. MARTINEZ, Mr. VENTO, Ms. VELAZQUEZ, and Ms. MCKINNEY) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to deny employers a deduction for payments of excessive compensation.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the `Income Equity Act of 1997'.

SEC. 2. DENIAL OF DEDUCTION FOR PAYMENTS OF EXCESSIVE COMPENSATION.

(a) IN GENERAL- Section 162 of the Internal Revenue Code of 1986 (relating to deduction for trade or business expenses) is amended by inserting after subsection (h) the following new subsection:

`(i) EXCESSIVE COMPENSATION-

`(1) IN GENERAL- No deduction shall be allowed under this chapter for any excessive compensation with respect to any full-time employee.

`(2) EXCESSIVE COMPENSATION- For purposes of this subsection, the term `excessive compensation' means, with respect to any employee, the amount by which--

`(A) the compensation for services performed by such employee during the taxable year, exceeds

`(B) an amount equal to 25 times the lowest compensation for services performed by any other full-time employee during such taxable year.

`(3) DEFINITIONS AND SPECIAL RULES- For purposes of this subsection--

`(A) COMPENSATION-

`(i) IN GENERAL- The term `compensation' means salary, wages, and bonuses.

`(ii) PART-YEAR EMPLOYEES- In the case of any part-year employee, the compensation of the employee shall be computed on an annualized basis.

`(B) EMPLOYER- All persons treated as a single employer under subsection (a) or (b) of section 52 or subsection (m) or (o) of section 414 shall be treated as 1 employer.'

(b) EFFECTIVE DATE- The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

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The Income Equity Act of 1997 (H.R. 687) Fact Sheet

Question: How does the tax link work?

Answer: *Under current law, "reasonable" compensation is tax deductible as a business expense. My bill defines "reasonable" by capping the tax deduction for executive compensation at 25 times the salary of the lowest paid full-time worker in the same firm. For example, if the lowest paid worker at a business is the filing clerk who makes $10,000 a year, the business will only be allowed to deduct $250,000 (25 times $10,000) in salary and bonuses per executive.*

Question: Are you proposing to limit executive pay?

Answer: *NO. This bill would not limit pay. It simply states that our government should not, through the tax code, subsidize excessive pay. If companies want to receive larger tax deductions, they must pay their lowest-paid employees more.*

Question: What income is covered by the proposal?

Answer: *All salary and bonuses are covered.*

Question: Why doesn't the legislation cover stock options or other forms of income?

Answer: *This bill is intended to deal directly with wage disparities. It does not deal with income such as royalties or stock options. Stock options, if handled properly, are a good way for employees to invest in the success of their company. I believe, however, that if a company uses stock options they should be made available to all employees.*

Question: Why should the government get involved with worker and executive pay?

*Answer:**Despite our strong economy, many Americans still struggle to get by. Even after seven years of economic growth, the average income of four-fifths of American households is still below pre-recession levels of 1989.*

Our government has a direct interest in people being paid adequately. When they are not, *government spends money on programs that help provide food, shelter, and medical care. I believe people who work full time should be able to live without government assistance. Our government should encourage corporate behavior that helps workers achieve this goal, which is what my bill would do..*

Question: Is there any precedent for this type of legislation?

Answer: *Yes. In 1984, Congress passed a law regarding "golden parachutes" that went considerably further than my proposal. The law defined excess payments (in the form of "golden parachutes") and made them non-deductible. It also imposed a 20 percent excise tax on recipients of excess payments. In 1993, Congress passed a law limiting the deduction for executive compensation to $1 million per employee.*

Question: Would the government pay scale fit into this provision?

Answer: *Yes. The President's compensation of $250,000 ($200,000 salary and $50,000 for expenses related to his position) would be about 23 times that of a $5.15 minimum wage worker. The entire federal government would be in compliance.*

Back to Income Inequality

Congressman Martin Olav Sabo Remarks "Day to Close the Wage Gap" Press Event April 23, 1998

Good morning, and thank you all for coming.

To believe many headlines these days, you may think that we've done it -- our economy couldn't get any better. Our budget is nearly balanced. Unemployment is near an historic low. Inflation is under control. The stock market is booming. All Americans are prospering, and everyone's happy.

We are here to represent the millions of Americans who know this isn't true -- those who still struggle to live off their paychecks, who scrimp and save just to provide for their families, and those who know that our nation's newfound prosperity is not widely shared.

Instead of helping all Americans, the current economic boom has starkly shown that the income gap between the top and bottom of our society remains a fundamental problem.

For over a generation following World War II, economic good times helped all segments of our society. Since the late 1970s, this has no longer been the case, and our society has become far less equal.

Americans have always believed that people should be encouraged to work, and that work should be rewarded. Millions of Americans get up in the morning and head to their jobs believing that their hard work is the ticket to a better life for them and their families. However, when workers start believing the economy serves only the wealthy, our democratic values of merit and equal opportunity are undermined, and the institutions we have founded on those values are threatened. Indeed, I believe our nation faces terrible social consequences if we do not address the income gap.

Clearly, government alone cannot eliminate income inequality. However, federal policies should not widen the income gap, either. That is why I introduced the Income Equity Act.

Under current law, companies may deduct a "reasonable allowance for salaries or other compensation." This deduction is capped at $1 million, but the law contains no other definition of what is "reasonable." Therefore, companies receive tax deductions for high executive salaries, even if they pay other employees poorly.

My bill would link the salaries of top earners with those at the bottom. It would redefine what is "a reasonable allowance" as 25 times the salary of the lowest-paid full time employee in a firm. This would ensure that the federal government -- and the American taxpayer -- don't subsidize excessive wage gaps.

The Income Equity Act would work like this: if the lowest-paid worker at a firm is a clerk who makes $12,000 per year, the company could deduct only $300,000 of its CEO's salary. Such a link would give executives a strong incentive to take a hard look at how they pay their workers.

This is not an attack on CEOs, or an attempt to punish those who have become successful at the top. Skilled executives make vital contributions to their companies and deserve to be paid accordingly. However, companies should also acknowledge that success comes from a united effort, and all workers deserve to be rewarded for their part in a firm's accomplishments.

Nor is this a call to "class warfare." Quite the contrary, in fact. As long as workers feel they have a chance to move up the income ladder, we shouldn't have class warfare in America. However, the wider the income gap gets, the farther away we move from the ideal of America's "classless" society.

I am pleased that United for a Fair Economy has joined with organized labor, religious groups, grassroots organizations, and groups of wealthy individuals like Responsible Wealth to form the Wage Gap Campaign. This effort demonstrates that the income gap isn't about workers and CEOs, or rich and poor. The problem strikes at the heart of America's fundamental values, and forces us to examine what kind of nation we want to be: one divided by class conflict and social stagnation, or one of equal opportunity for all?

With the help of the Wage Gap Coalition, I am confident that we can be the latter.

Martin Olav Sabo (D-MN) is former Chairman of the House Budget Committee.

Back to Congressman Sabo's page on Income Inequality.

USA Today
Published Thursday, May 15, 1997

Taxpayers shouldn't be subsidizing CEO Pay
Written by Congressman Martin Olav Sabo

Although April is often called the cruelest month, May is proving equally tough for struggling American workers. This month, thousands of Americans are shocked to find out what the executives at their companies are being paid. If those same workers found out that their tax dollars were subsidizing the most excessive of CEO salaries, that shock would probably turn to anger.

As America's major business publications have recently released their annual surveys of CEO compensation, there have been the usual denunciations of the excess. Organized Labor has even responded with a web site to track the problem. But to me, more troubling than the size of a CEO's salary is the skewed relationship between that salary and the pay of other workers in the same company.

BusinessWeek's most recent survey illustrates how one-sided this relationship has become. While average wages rose 3 percent in 1996, the average CEO salary and bonus rose 39 percent to $2.3 million.

Americans have always assumed that when a company succeeds, all employees will share in that success. But for the last two decades that has become alarmingly less true. In 1974, CEOs in manufacturing firms made 34 times what average workers did. By 1995, that figure had exploded to 159 times the pay of average workers.

Concern over excessive executive pay should not only arise in May when the top salaries are publicized. We need an ongoing national discussion about its impact on income inequality and how that inequality affects both our economy and our society. Income inequality has grown almost continuously in America since the 1970s and the income gap has become more pronounced in the United States than in any other industrialized nation.

Part of the problem is our tax code. It now allows extremely high salaries to be tax deductible as a business expense. In short, the very Americans who are repelled by excessive executive salaries are subsidizing them with their hard-earned tax dollars. Like many, I don't believe that our tax code intends to make excessive executive pay completely tax deductible.

Under current law, businesses may deduct "a reasonable allowance for salaries or other compensation...." However, the law defines "reasonable" as $1 million, which is more than 99.9 % of Americans earn. Companies have therefore been able to deduct salaries that are vastly disproportionate to those of their lowest-paid employees.

We need to redefine what is "a reasonable allowance." We can do that by capping the tax deduction for executive compensation at 25 times the salary of the lowest-paid full time employee in a firm. In other words, if the lowest-paid worker is a clerk who makes $12,000, the CEO could make $300,000 before the company loses any deduction.

I'm not out to attack CEOs. I am a strong believer in the importance of organizational leadership. Skilled executives make vital contributions to their companies, and deserve to be compensated accordingly. But a company doesn't exist solely for the benefit of those running it. It has a relationship with shareholders, consumers, communities and workers -- all of which are essential to the company's success.

The goal is not limiting pay at the top, but rather raising pay for those at the bottom. I would offer businesses a choice: if they wish to have U.S. taxpayers subsidize executive salaries, they should create an equitable link between the top and bottom of their pay scales. If they don't, they give up part of their tax deduction.

My plan is by no means the entire solution to America's income inequality. I hope, however, that it will spur private sector decision-makers to think about their workers when they make compensation decisions. My bill embodies the values many Americans share that those who work on the factory floor are as important as those who work in the executive suite.

(Congressman Martin Olav Sabo, D-Minn., is sponsor of the Income Equity Act.)

Back to Congressman Sabo on the Issues

Star Tribune Online

Minneapolis Star Tribune
Published Monday, February 10, 1997

Written by Doug Grow

Rep. Martin Olav Sabo knows he's got no chance.

But no matter. On Tuesday, the longtime DFL congressman from Minnesota again will introduce a bill that would limit the tax deductibility of a corporate executive's compensation at 25 times that of the lowest paid worker in the company.

Because of giant loopholes, virtually all compensation is a tax-deductible expense for businesses, which means the government is in the business of subsidizing the exorbitant compensation packages paid to such executives as Lawrence Coss, head of St. Paul's Green Tree Financial, who was paid $100 million last year.

Under Sabo's plan, if the lowest-paid worker in a company is paid $10,000, a company could deduct only $250,000 of compensation paid to its highest-paid workers.

But Sabo's plan extends beyond the boardroom. For example, a sports team such as the Minnesota Twins would lose the ability to deduct most of the lofty salaries paid to such players as Kirby Puckett, who is to receive about $8 million this year even though he's not playing, and Chuck Knoblauch, who will receive about $6 million this season.

Sabo is an unlikely Don Quixote. He's a knight in dull armor. He's perfectly willing to fight unbeatable foes, but he's not going to do it with a whole lot of flash or gusto.

As recently as last Friday, Sabo was muttering that he wasn't even sure whether he would do anything in Washington, D.C., to attract media attention to the reintroduction of his bill. He couldn't even recall how many times he's introduced the bill.

"I know we did [introduce the bill] in 1993; I'm not sure about 1991," he said.

At times Sabo seemed almost apologetic about being seen as a populist aiming at the most comfortable in our society.

"My goal is not to make villains of people at the top," he said. "I'm a believer that leadership is incredibly important."

But get past his mutterings and apologies and there beats the heart of an old-fashioned Minnesota liberal.

"I don't expect it [the compensation bill] to be law by the end of the year," Sabo said. "I don't know if it will happen in my lifetime or if it will ever happen. But we have to have the discussion about values. We can't afford to ignore the disparity that keeps growing. I happen to look at things the way Henry Ford did. He said people who worked for him should be able to afford his product, and I think that makes sense."

Sabo's staff members have armed their man with both stats and the wisdom of the ages.

For example, a media packet that has been prepared for Sabo to use when he reintroduces the bill has a 1995 column by the Washington Post's Mark Shields. In that column, Shields reaches back 2,000 years to quote Plutarch, a Greek historian. "An imbalance between rich and poor is the oldest and most fatal ailment of all republics."

Included in the packet are census bureau statistics and charts showing that between 1950 and 1978, the income of the poorest 20 percent of Americans grew faster than the income of the richest 20 percent of Americans. But between 1979 and 1995, the inflation-adjusted income of the poorest 20 percent of Americans fell by 9 percent, and the inflation-adjusted income of the richest 20 percent grew by 26 percent. Census bureau data show that in 1995, the richest 5 percent of Americans received 20 percent of the nation's aggregate income, while the poorest 40 percent received 14.6 percent of the income.

"I'm not suggesting that this is the formula to answer everything," Sabo said. "But it becomes a values statement. I think it's a way that will encourage people to talk about the relationship between the top and the bottom. It's the balance of that relationship that we must be concerned about."

His bill -- the Income Equity Act of 1997 -- won't be his only attack at the disparity between rich and poor. Sabo intends to push for increases in the minimum wage beyond next September's increase, which will push it to $5.15.

Sabo said he has no argument with those who say that the best way for people to improve their economic status in life is through education and training. But he also points out that in any society, there always will be a need for semiskilled workers to mop up after the rest of us.

"We have to decide whether to pay those people more or subsidize them more," he said. "We have to talk about balance."

Back to Income Inequality

The Nation
Published April 7, 1997
Editorials

Chainsaw Economics

"I think as we look at this world that we are living in, there are opportunities for a lot of terrific things to happen," Sandy Weill, chairman of the Travelers Group, told Lou Dobbs on CNN in January. In Weill's world that's certainly true: On March 10 his company revealed that Weill's one-year pay set an all time record for CEO compensation, an incredible $94.1 million. The world inhabited by Weill's employees has less reason for optimism. In Hartford, where the Travelers Group is based, Weill cut nearly 1,000 jobs in the past year. From 1987 to 1995, the always profitable Travelers (which provides insurance and financial services) cut its national work force by one-third, eliminating 3,700 jobs in 1994 alone.

Wall Street is in thrall to the slash-and-burn management cult, so it's hardly a coincidence that Dow Jones announced on March 14 it would add Travelers to the industrial average, replacing slower performers that actually produce things, like Bethlehem Steel and Westinghouse. The same day, H.J. Heinz- reporting that third-quarter earnings were up 11 percent- announced plans to close twenty-five plants and fire 2,500 employees. Last year, it was Heinz CEO Anthony O'Reilly who won the executive-compensation sweepstakes, with a mere $65 million.

The role model for this generation of corporate sociopaths is Al "Chainsaw" Dunlap, a serial job-killer who as CEO of Sunbeam last year cut 6,000 jobs- 50 percent of the company's work force; a year earlier he cut 11,000 jobs from Scott Paper. (*Business Week* describes Dunlap as a "cruel, sometimes abusive man" who refused to pay for his dying mother's nursing care. Not long ago he proudly posed for a photo dressed as a commando, a submachine gun in each hand.)

For a generation after World War II, the Dow Jones seemed wedded to the fortunes of the American middle class- as stock prices rose, so did the standard of living. Now, stock prices, manipulated by the chainsaw generation of executives like Weill and Dunlap, are divorced from workers' wages and security. And the middle class and poor pay the price. "We're like office furniture. We can be sold, moved around or moved into storage," an insurance underwriter complained to the *Hartford Courant* last year.

The country needs not only faster growth but fairer distribution. The living-wage campaigns under way in Baltimore, St. Paul, New Haven and elsewhere- which requires that all companies receiving municipal contracts provide workers with above-poverty wages are symbolic place to start. Representative Martin Sabo has offered the Income Equity Act, which would limit the tax deductibility of executive compensation to twenty-five times that of the lowest-paid worker in the same company. Similar bills have been proposed in other state legislatures. Taxpayers need not subsidize excessive greed.

In the longer run, stronger unions are needed for workers to exact a fair share of the profits they produce. And, in the face of such growing and massive inequality, taxes on wealth or more progressive taxes on income are essential. Politicians sitll argue that Americans are for growth, not redistribution. But if Weill and Dunlap set the tone, they may discover, as Weill, the 94-million-dollar-man, told Loud Dobbs, "I think the American people are smarter than government thinks that they are." And than their bosses

LRB–1809/~~1~~ 1
JK:...:...

jg redraft maker has been run

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gen

AN ACT ...; **relating to:** limiting the corporate income ~~and franchise~~ tax deduction for compensation paid to an employe.

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further

Analysis by the Legislative Reference Bureau

Under current law, a corporation may deduct from its income tax the compensation paid to its officers and employes. The corporate income tax deduction for compensation paid to executive officers cannot exceed ~~one million dollars~~ $1,000,000.

This bill limits any single corporate income tax deduction for compensation paid to an employe or officer to an amount not to exceed the compensation paid to a corporation's lowest paid full–time employe multiplied by 25.

For further information see the ***state*** fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. 71.26 (3) (e) 1. of the statutes is amended to read:

71.26 **(3)** (e) 1. So that payments for wages, salaries, commissions and bonuses of employes and officers may be deducted only if the name, address and amount paid to each resident of this state to whom compensation of $600 or more has been paid during the taxable year is reported or if the department of revenue is satisfied that failure to report has resulted in no revenue loss to this state. A deduction for wages, salaries, commissions and bonuses paid to an employe or officer shall not exceed an amount equal to the wages, salaries, commissions and bonuses paid to the corporation's lowest paid full–time employe multiplied by 25.

SECTION 2. Initial applicability.

(1) This act first applies to taxable years beginning on January 1 of the year in which this subsection takes effect, except that if this subsection takes effect after July 31 this act first applies to taxable years beginning on January 1 of the year following the year in which this subsection takes effect.

(END)

SUBMITTAL FORM

LEGISLATIVE REFERENCE BUREAU
Legal Section Telephone: 266-3561
5th Floor, 100 N. Hamilton Street

The attached draft is submitted for your inspection. Please check each part carefully, proofread each word, and **sign** on the appropriate line(s) below.

Date: 1/22/99

To: Representative Pocan

Relating to LRB drafting number: LRB-1809

Topic
Deny corporate income tax deduction for excessive compensation.

Subject(s)
Tax - corp. inc. and fran.

1. **JACKET** the draft for introduction Pocan

   in the **Senate** ____ or the **Assembly** X (check only one). Only the requester under whose name the drafting request is entered in the LRB's drafting records may authorize the draft to be submitted. Please allow one day for the preparation of the required copies.

2. **REDRAFT.** See the changes indicated or attached ______________.

   A revised draft will be submitted for your approval with changes incorporated.

3. Obtain **FISCAL ESTIMATE NOW,** prior to introduction ______________.

   If the analysis indicates that a fiscal estimate is required because the proposal makes an appropriation or increases or decreases existing appropriations or state or general local government fiscal liability or revenues, you have the option to request the fiscal estimate prior to introduction. If you choose to introduce the proposal without the fiscal estimate, the fiscal estimate will be requested automatically upon introduction. It takes about 10 days to obtain a fiscal estimate. Requesting the fiscal estimate prior to introduction retains your flexibility for possible redrafting of the proposal.

If you have any questions regarding the above procedures, please call 266-3561. If you have any questions relating to the attached draft, please feel free to call me.

Joseph T. Kreye, Legislative Attorney
Telephone: (608) 266-2263

State of Wisconsin

LEGISLATIVE REFERENCE BUREAU

100 NORTH HAMILTON STREET
P. O. BOX 2037
MADISON, WI 53701-2037

LEGAL SECTION (608) 266-3561
REFERENCE SECTION (608) 266-0341
FAX: (608) 266-5648

STEPHEN R. MILLER
CHIEF

April 6, 1999

LRB

MEMORANDUM

To: Representative Pocan

From: Joseph T. Kreye, Legislative Attorney, (608) 266–2263

Subject: Technical Memorandum to **1999 AB 161** (LRB 99–1809/1)

We received the attached technical memorandum relating to your bill. This copy is for your information and your file. If you wish to discuss this memorandum or the necessity of revising your bill or preparing an amendment, please contact me.

MEMORANDUM

April 5, 1999

TO: Joseph Kreye
Legislative Reference Bureau

FROM: Yeang-Eng Braun YEB
Department of Revenue

SUBJECT: Technical Memorandum on AB 161 - Corporate Income and Franchise Tax: Limit Deduction for Compensation Paid to Officers and Employees

The Department has the following concerns regarding language in the bill:

- The bill limits the deduction for payments for wages, salaries, commissions and bonuses of officers and employees, but does not define those terms. It is not clear if bonuses include stock options, country club dues or other benefits. If not included in those terms, corporations could pay officers and employees amounts exceeding the deductions in stocks or other consideration.

- Similarly, the deduction is limited to 25 times the salary of the lowest-paid full-time employee. However, no definition is provided for full-time. Full-time could mean 40 hours per week, 30 hours, or some other measure. A definition of full-time is necessary to avoid taxpayer confusion and enable the Department to audit returns.

- The bill provides opportunities to evade the deduction limitation. A corporation could establish a management company with just the corporate officers in it and pay the officers whatever it wanted, charging a management fee to the corporation for the services provided by the officers. The payroll expense and management fee would net to zero for the management company, but the corporation would get a deduction for the full management fee. This problem could be solved by including payments for personal services in the compensation limited by the deduction.

If you have questions regarding this technical memorandum, please contact Pamela Walgren at 266-7817.

YEB:PW:ds
t:\fsn99-00\pw\ab161.tec