

PRELIMINARY

FISCAL ESTIMATE FORM

1999 Session

- ORIGINAL UPDATED
- CORRECTED SUPPLEMENTAL

LRB # 99-4123/4
INTRODUCTION # AB 735
Admin. Rule #

Subject
 Change Corporate Income and Franchise Tax Apportionment to Single Sales Factor Formula

Fiscal Effect

State: No State Fiscal Effect
 Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

<input type="checkbox"/> Increase Existing Appropriation <input type="checkbox"/> Increase Existing Revenues <input type="checkbox"/> Decrease Existing Appropriation <input checked="" type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Create New Appropriation	<input type="checkbox"/> Increase Costs - May be Possible to Absorb Within Agency's Budget <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs
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Local: No Local Government Costs

1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenues <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenues <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	5. Types of Local Governmental Units Affected: <input type="checkbox"/> Towns <input type="checkbox"/> Villages <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others _____ <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
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Fund Sources Affected <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEG-S	Affected Ch. 20 Appropriations
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Assumptions Used in Arriving at Fiscal Estimate:

Under current law, most industries apportion income using a three-factor formula—the ratio of a corporation's in-state property, payroll and sales to its property, payroll and sales everywhere—to determine the portion of a multistate corporation's taxable income attributable to the state. The sales factor is double-weighted in the apportionment formula. Special apportionment formulas are required for certain industries.

This bill would change the apportionment formula for several industries to one based solely on the sales factor, as shown in Table 1 on the next page. The premiums factor for insurance companies would include assumed premiums written for reinsurance. Apportionment formulas for pipeline companies, air carriers, motor carriers, railroads, sleeping car companies, car line companies and professional sports clubs would remain unchanged.

The change would be phased-in over a three-year period. The sales factor would be weighted at 63% in the first year, 85% in the second year and 100% in the third year.

Based on Department data, it is estimated that the corporate tax revenues of corporations subject to the general apportionment formula would be reduced in each year of the formula change as shown in Table 2 on the next page. Since the phase-in would begin in tax year 2002 and the fiscal impact would be felt through estimated payments, the revenue loss would be -\$10.2 million in FY02, -\$38.5 million in FY03, -\$67.5 million in FY04, and -\$79.3 million in FY05 and thereafter.

An estimate of the costs the Department of Revenue will incur to administer this change is not yet available.

(continued on page two)

Long-Range Fiscal Implications:

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TABLE 1		
Industry	Current Law	AB 735
Regular Corporations (including Manufacturers, Mercantile and Service Industries)	3-Factor: property, payroll, double-weight sales	Sales
Insurance Companies	2-Factor: payroll & premiums	Premiums
Banks and other Financial Institutions	2-Factor: payroll & gross receipts from lending of money	Sales (to be determined by rule)
Brokers and Underwriters	By rule (no rule has been promulgated)	Sales (to be determined by rule)
Electric, Gas and Water Public Utilities	3-Factor: property, payroll, single-weight sales	Sales
Telecommunications	3-Factor: property, payroll, single-weight sales	Sales

TABLE 2	
FISCAL EFFECT OF SINGLE SALES FACTOR PHASE-IN	
	Fiscal Effect
Year 1: Weight Sales Factor at 63%	\$ (22,700,000)
Year 2: Weight Sales Factor at 85%	(57,800,000)
Year 3: Weight Sales Factor at 100%	(79,300,000)

Based on the 1996 Corporate Income Tax Model

YEB 2/15/00

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

1999 Session

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 CORRECTED SUPPLEMENTAL

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Subject

Change Corporate Income and Franchise Tax Apportionment to Single Sales Factor Formula

I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

Revenue losses of -\$10.2 million in FY02, -\$38.5 million in FY03 and -\$67.5 million in FY04.

II. Annualized Costs: Costs are not yet available.

Annualized Fiscal impact on State funds from:

A. State Costs by Category	Increased Costs	Decreased Costs
	State Operations - Salaries and Fringe	\$
(FTE Position Changes)	(FTE)	(- FTE)
State Operations-Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	\$	\$ -
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
	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.
		FY05
GPR Taxes	\$	\$ - 79,300,000
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	\$	\$ - 79,300,000

NET ANNUALIZED FISCAL IMPACT

STATE

LOCAL

NET CHANGE IN COSTS	\$ Not yet available	\$
NET CHANGE IN REVENUES	\$ -79,300,000 (FY05)	\$

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