FISCAL ESTIMATE FORM

1999 Session

LRB # -1801/7	
INTRODUCTION # SB 111	
Admin. Rule #	

☒ ORIGINAL ☐ UPDATED

☐ CORRECTED ☐ SUPPLEMENTAL

Subject

Campaign Finance Reform

Fiscal Effect

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

☐ Increase Existing Appropriation ☐ Increase Existing Revenues
☐ Decrease Existing Appropriation ☐ Decrease Existing Revenues
☐ Create New Appropriation

☒ Increase Costs - May be Possible to Absorb Within Agency's Budget ☐ Yes ☒ No

☐ Decrease Costs

Local: ☐ No Local Government Costs

1. ☐ Increase Costs
   ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs
   ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenues
   ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenues
   ☐ Permissive ☐ Mandatory
5. Types of Local Governmental Units Affected:
   ☐ Towns ☐ Villages ☐ Cities
   ☐ Counties ☐ Others ______
   ☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☒ GPR ☐ FED ☐ PRO ☐ PRS ☒ SEG ☐ SEG-S

Affected Ch. 20 Appropriations

20.566 (1)(a) and (3)(f); 20.855 (4)(b), (ba) and (bb)

Assumptions Used in Arriving at Fiscal Estimate:

The bill would make several changes to current campaign finance law. It would increase the amount of individual designations to the Wisconsin election campaign fund, eliminate expense deductions for persons engaged in the trade or business of lobbying, establish a refund for individuals making political contributions to certain state candidates or political parties and establish a tax on certain earnings of campaign funds for political candidates and personal campaign committees. The changes are discussed in greater detail below.

It is estimated that the bill would decrease individual income tax revenues by $400,000 annually. Because of the different and staggered terms of offices covered by changes proposed in the bill, the fiscal effect would vary from year to year. Also, interest among contributors varies year to year. Further, the campaign fund would see an increase in revenue of $1,200,000 annually.

Campaign Fund Checkoff

The Wisconsin election campaign fund is financed through an individual income tax "checkoff." Every individual filing a state income tax return (whether having a tax liability or refund) may designate that $1 of general fund revenues be transferred to the campaign fund. On joint returns, each spouse may choose to designate a $1 transfer. All moneys transferred to the campaign fund are placed in accounts for specified state offices, and candidates for those offices may qualify for grants from the fund for specified campaign expenses. No moneys in the fund may be used for any other purpose.

The bill would increase the checkoff amount from $1 to $5. Individuals filing a joint return may separately choose to make the $5 designation. Individuals making the designation may determine if the

(continued on page two)

Long-Range Fiscal Implications:

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue	Yeang-Eng Braun Yeang Eng Braun	7/1/99
Pam Walgren, (608) 266-7817	(608) 266-2700	

amount should go to a general account for distribution as under current law or to an account for eligible political parties certified by the Election Board to the Secretary of the Department of Revenue.
In 1997, there were nearly 312,000 designations on state income tax returns for contributions to the election campaign fund. If the number of designations does not change, increasing the checkoff amount from $1 to $5 would increase the amount designated to the campaign fund by $1.2 million annually. This estimate assumes that this additional amount would be transferred from the general fund to the campaign fund; that is, this amount is a GPR expenditure and a segregated fund revenue.

Deduction for Lobbying Expenses

Current federal and state laws prohibit a business expense deduction for lobbying expenses related to attempts to influence federal or state legislation. The prohibition does not apply to expenses related to local legislation. In addition, an exception is provided for expenses by taxpayers engaged in the trade or business of lobbying, and for de minimis in-house lobbying activities if the expenses do not exceed $2,000 per year.

This bill would eliminate the exception under current law for business expenses of taxpayers engaged in the lobbying trade or business. The bill would require the Secretary of the Department of Revenue to annually certify to the Secretary of the Department of Administration the amount of taxes collected during the previous 12-month period ending on June 30 as a result of denying the deductions.

Information on the income of taxpayers engaged in the trade or business of lobbying is not readily available. However, based on information from the Wisconsin Ethics Board, it is estimated that approximately $20 million is expended annually for lobbying activities by groups or organizations to influence federal or state legislation. It is assumed that 60%, or $12 million, of those expenditures is paid as compensation to the lobbyists ($20,000 000 x 60%). It is further assumed that 60% of this compensation covers expenses (30% for overhead and 30% for staffing), for which lobbyists currently claim a tax deduction. Assuming a marginal tax rate of 6.77%, the current highest statutory rate for individuals (it is believed most lobbying firms are partnerships whose income is taxed to the individual partners), the revenue gain from denying the deduction for lobbying expenses to taxpayers engaged in the trade or business of lobbying is estimated at $500,000 ($12,000,000 x 60% x 6.77%). The actual fiscal effect of this provision could increase or decrease in specific years because of specific interests and lobbying activities in those years.

Information is not available on the number of taxpayers who claim a deduction under the de minimis in-house lobbying exception or the amount of the deduction claimed. However, since the deduction is allowed only when expenses do not exceed $2,000, it is assumed that increased revenues from the elimination of this deduction would be minimal.

Political Contribution Refund

Under the bill, certain candidates for state offices and state political parties meeting specific requirements may be certified by the Elections Board to the Secretary of the Department of Revenue. A resident individual who makes a contribution to a certified political party or certified eligible candidate may file a claim with the Secretary requesting a refund of not more than $50 for contributions made within the calendar year ($100 for married couples filing a joint return).

Based on historical records from the Elections Board on contributions and the number of candidates for state offices and political parties likely to be certified to the Secretary, it is estimated that the refund would decrease tax revenues by approximately $3.6 million during a four-year period, the length of time

(continued on page three)

4EB 7/1/99

needed to cover most of the elections to which the bill applies. Based on this figure, the estimated annualized fiscal effect would be $900,000. However, the actual fiscal effect in any year would vary depending upon which elections were held and how many candidates and parties were certified. Additionally, this estimate assumes that campaign fund check-off amounts would be transferred to the campaign fund and not to an account for certified political parties.

Campaign Treasury Surplus Earnings Tax

The bill would impose a 15% tax on campaign treasury surplus earnings of candidates and personal campaign committees. Campaign treasury surplus is the unencumbered balance in the campaign depository account during a period beginning on the first day of the month following an election at which the candidates name was on a ballot and ending on a date when the candidate files a valid declaration of candidacy with valid nomination papers to appear on the ballot of a succeeding election. The surplus period does not begin after a candidate appears on a primary ballot if the candidate was nominated at the primary election to appear on an election ballot. The tax is imposed on the earnings received for the six-month period ending on each December 31 and June 30.

The Secretary of the Department of Revenue must certify the amount of taxes collected annually, no later than September 15, to the Secretary of Administration for the twelve months ending on June 30. These provisions first apply to earnings received on January 1, 2001.

Based on discussions with the Elections Board, it is assumed that revenue gain from this tax would be minimal. It is believed that few candidates keep funds in interest bearing accounts and those that might would not carry significant balances.

Administrative Costs

The bill does not provide for funding of administrative costs. The Department estimates that there would be one-time costs of $291,800 and annual costs of $16,700 to implement and administer the bill.

The bill requires the Secretary of Revenue to provide a place for seven years in the instructions accompanying income tax returns for any information concerning taxpayer designations submitted to the Secretary by the Elections Board. Further, the bill changes the reporting period for the amount of designations by the Department of Revenue to the Elections Board, the Department of Administration and the State Treasurer from an annual requirement on August 15 to a monthly requirement no later than the 15th. The Secretary must certify the total amount of designations made on returns during the preceding month, the amount for the general fund, the amount for the accounts of each eligible political party and within the account of each eligible party, the amount designated by residents of each county.

The Secretary must prescribe an official refund receipt form with sequential numbering for use in providing political contribution refunds. The bill requires the Secretary to pay interest at a rate of 9% per year on refunds made later than June 15th in the year after the contributions to be refunded were made.

The bill also requires the Secretary of Revenue to certify annually, no later than August 15, to the Secretary of the Department of Administration the amount of taxes collected as a result of denying the income and franchise tax lobbying expense deductions during the preceding fiscal year.

4EB 7/1/99

FISCAL ESTIMATE WORKSHEET

☒ ORIGINAL ☐ UPDATED

☐ CORRECTED ☐ SUPPLEMENTAL

Detailed Estimate of Annual Fiscal Effect **1999 Session**

LRB # -1801/7	Admin. Rule #
INTRODUCTION # SB 111	

Subject
Campaign Finance Reform

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

One-time costs of $291,800

II. Annualized Costs:	**Annualized Fiscal impact on State funds from:**	
A. State Costs by Category	**Increased Costs**	**Decreased Costs**
State Operations - Salaries and Fringe	$ 6,100	$ -
(FTE Position Changes)	(FTE)	(- FTE)
State Operations-Other Costs	1,210,600	-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	$ 1,216,700	$ -
B. State Costs by Source of Funds	**Increased Costs**	**Decreased Costs**
GPR	$ 1,216,700	$ -
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	$ 500,000	$ - 900,000
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S	1,200,000	-
TOTAL State Revenues	$ 1,700,000	$ - 900,000

NET ANNUALIZED FISCAL IMPACT

	STATE	**LOCAL**
NET CHANGE IN COSTS	$ + 1,216,700	$
NET CHANGE IN REVENUES	$ + 800,000	$

Agency/Prepared by: (Name & Phone No.)	**Authorized Signature/Telephone No.**	**Date**
Wisconsin Department of Revenue	**Yeang-Eng Braun** Yeang Eng Braun	7/1/99
Pamela Walgren, (608) 266-7817	**(608) 266-2700**	