FISCAL ESTIMATE FORM

1999 Session

LRB # 2939/2

INTRODUCTION # SB 199

Admin. Rule #

☒ ORIGINAL ☐ UPDATED

☐ CORRECTED ☐ SUPPLEMENTAL

Subject

Income and Franchise Tax: Child Care Credits

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

Assumptions Used in Arriving at Fiscal Estimate:

This proposal would create three credits against income and franchise taxes for expenditures of employers and individuals relating to child care.

It is estimated that income tax revenues would be reduced by $17.5 million annually. A breakdown of each credit is provided below.

Day Care Center Credit

Employers could claim credits for the following expenses related to child care of employees during the employees' working hours:

1. Up to 50% of amounts paid or incurred in a taxable year to construct and equip a licensed day care center.
2. $50 per month for each child enrolled in the employer's day care center during a taxable year.
3. Up to 50% of amounts paid to another licensed day care center during a taxable year.

No credit may be allowed unless the employer files an application with the Department of Revenue before the end of the taxable years in which amounts are paid or expenses incurred.

The amount of credit claimed by an employer may not exceed $50,000 per taxable year and total claims by all employers are capped at $1.5 million in a fiscal year. Unused credits may be carried forward for five years to offset tax liability in future years.

(continued on page two)

Long-Range Fiscal Implications:

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue Pamela Walgren, (608) 266-7817	Yeang-Eng Braun (608) 266-2700 Yeang Eng Braun	8/17/99

If operation of an employer-owned day care center for which credit has been claimed ceases within five years of completion of construction, the employer must prorate the amount of the credit and add-back any excess credit used to its tax liability as follows:

1. 100% if operation ceases within the first year.
2. 80% if operation ceases within the second year.
3. 60% if operation ceases within the third year.
4. 40% if operation ceases within the fourth year.
5. 20% if operation ceases within the fifth year.

Based on information from the Department of Workforce Development on the current level of employer-sponsored day care programs and their costs, it is estimated that the full cap of $1.5 million in credits would be claimed in each fiscal year. Some claimants do not have enough tax liability to use up their credits. It is estimated that approximately 75% of credit claims are used in a given year. As a result, the credit would reduce tax revenues by approximately $1.125 million annually ($1.5 million x 75%).

While it appears that the intent is to provide total credit authority of $1.5 million, the bill, as drafted, could be interpreted as providing $4.5 million in credits: $1.5 million for individual filers, $1.5 million for corporations and $1.5 million for insurance companies. If interpreted this way, the bill could reduce revenues by $3.75 million, assuming 75% of the credit claims were used in a year.

Child Care Credit

A nonrefundable credit for 5% of qualified child care expenditures, not to exceed $15,000 per year, is available to employers under the proposal. Qualified expenditures are any amounts, not already used in calculating the development zone day care center credit or the day care center credit provided in this draft, used to:

1. Acquire, construct or rehabilitate property for a qualified day care facility.
2. Pay for operating costs of a qualified day care facility, including salary and training costs.
3. Pay a child care facility under contract to provide child care services to employees.
4. Pay for child care resource and referral services to employees.

A qualified day care facility must meet the following requirements: be licensed by DWD and used primarily to provide child care assistance; be depreciable or amortizable property; not be part of the principal residence of the employer or any employee; open to enrollment of employees; not discriminate in enrollment in favor of highly compensated employees' children; and is not the employer's principal trade or business unless at least 30% of enrollees of the facility are children of employees.

Based on information from the Department of Workforce Development on the number of employer-provided day care programs and their costs, it is estimated that there would be $1.7 million in claims annually. The Department estimates that approximately 75% of credit claims are used in a given year. Therefore, the credit would reduce individual and corporate income tax revenues by approximately $1.275 million annually ($1.7 million x 75%).

Child and Dependent Care Expenses Credit

Under current federal law, a nonrefundable individual income tax credit is available for certain qualifying child or dependent care expenses. A taxpayer must maintain a household for a dependent under 13 years

(continued on page three)

YFB 8/17/99

of age, a disabled spouse or another disabled individual dependent on the taxpayer. The maximum federal credit is $720 if the taxpayer has one qualifying dependent or $1,440 if more than one qualifying dependent.

This proposal creates a nonrefundable credit equal to 50% of the federal credit claimed. As such, the maximum credit would be $360 for filers with one qualifying dependent and $720 for filers with more than one qualifying dependent. The credit would be claimed after the itemized deductions credit and before the school property tax/rent credit. Unused credit amounts could be carried forward for 15 years to offset income taxes due in future tax years.

A simulation of the 1997 Wisconsin Individual Income Tax Model, adjusted to reflect subsequent law changes, shows the revenue loss associated with this provision would be $15.1 million annually.

Summary of Revenue Loss

Day Care Center Credit	- $ 1.125 million
Child Care Credit	- $ 1.275 million
Child and Dependent Care Credit	- $15.1 million
Total	- $17.5 million

Administrative Costs

The cost to screen, verify, and audit credit claims is estimated to be $63,200 annually beginning in FY 2001, including 1.3 FTE (0.3 Revenue Agent, 0.7 Revenue Auditor, and 0.3 Clerical Assistant). Start-up costs in FY 2000 are estimated to be $11,300 for processing costs (0.3 FTE) and $107,200 for programming and information technology support. Additional programming costs in FY 2001 would total $18,800.

4EB 8/17/99

FISCAL ESTIMATE WORKSHEET

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

☒ ORIGINAL ☐ UPDATED

☐ CORRECTED ☐ SUPPLEMENTAL

LRB # 2939/2	Admin. Rule #
INTRODUCTION # SB 199	

Subject

Income and Franchise Tax: Child Care Credits

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

One-time costs for programming and information technology support: $107,200 in FY00 and $18,800 in FY01; start-up processing costs: $11,200 and 0.3 FTE in FY00.

II. Annualized Costs:	**Annualized Fiscal impact on State funds from:**	
A. State Costs by Category	**Increased Costs**	**Decreased Costs**
State Operations - Salaries and Fringe	$ 53,800	$ -
(FTE Position Changes)	(1.3 FTE)	(- FTE)
State Operations-Other Costs	9,400	-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	$ 63,200	$ -
B. State Costs by Source of Funds	**Increased Costs**	**Decreased Costs**
GPR	$ 63,200	$ -
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	$	$ - 17,500,000
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	$	$ - 17,500,000

NET ANNUALIZED FISCAL IMPACT

	STATE	LOCAL
NET CHANGE IN COSTS	$ + 63,200	$
NET CHANGE IN REVENUES	$ - 17,500,000	$

Agency/Prepared by: (Name & Phone No.)	**Authorized Signature/Telephone No.**	**Date**
Wisconsin Department of Revenue	**Yeang-Eng Braun**	8/17/99
Pam Walgren, (608) 266-7817	**(608) 266-2700** Yeang Eng Braun	