27e

(Gov) Agency: General Fund Taxes -- Development Zone Tax Credit Modifications

Recommendations:

Paper #114: Alternative 3, maintain current law

Comments: The gov proposes sweetening the jobs component of this credit, claiming the boost is needed to bring jobs to development zones.

While some zones are worthy of support, the state sees fit to subsidize a lot of these things in places like Germantown, Saukville and Port Washington.

While the increase would have little fiscal effect in this budget, it has tremendous long-term implications (see Point 6).

Prepared by: Bob

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June 7, 1999 | Joint Committee on Finance | Paper #114

Development Zone Tax Credit Modifications (General Fund Taxes -- Individual and Corporate Income Taxes)

[LFB 1999-01 Budget Summary: Page 41, #11]

CURRENT LAW

Wisconsin has two programs which provide tax credits to businesses as incentives to expand and locate in designated economically distressed areas--development zones and enterprise development zones. The programs are designed to promote economic growth through job creation and investment in the distressed areas. Designation criteria target areas with high unemployment, low incomes and decreasing property values. Businesses which locate or expand in the different zones are eligible to receive the following tax credits:

a. *Environmental Remediation Component.* A credit against income taxes due can be claimed for 50% of the amount expended for environmental remediation in a brownfield located in a development zone or enterprise development zone.

b. *Full-Time Jobs Component.* A credit of up to $6,500 against corporate income taxes can be claimed for each full-time job created or retained in a development or enterprise development zone and filled by a member of a targeted group (generally, public assistance recipients and other economically disadvantaged individuals). In addition, a credit of up to $4,000 can be claimed for each full-time job created or retained in a development or enterprise development zone that is filled by an individual who is not a member of a targeted group.

GOVERNOR

Modify the full-time jobs component of the development zones tax credit as follows: (a) increase from $6,500 to $8,000 the maximum credit that could be claimed for each full-time job that was created and filled by a member of a targeted group; (b) eliminate the credit for retaining a job that is filled by a member of a targeted group; (c) provide a maximum tax credit of $8,000 for retaining a full-time job in an enterprise development zone if the Department of Commerce determines that a significant capital investment was made to retain the full-time job; and (d) increase from $4,000 to $6,000 the maximum tax credit that could be claimed for each full-time job created or retained and filled by an individual who is not a member of a targeted group. In addition, at least one-third of jobs credits claimed would have to be based on jobs created and filled by members of a targeted group. Currently, the credits must be based on jobs created or retained for targeted group members. These modifications would first apply to tax years beginning on January 1, 2000.

DISCUSSION POINTS

1. The development zone program was created by 1987 Wisconsin Act 328. Under the provisions of Act 328, Commerce (The Department of Development at the time) was given authority to designate eight development zones throughout the state and a total of $14 million was authorized for tax credits over the life of the program. The development zone program has been expanded four times since it was first established in 1987. Commerce has designated 20 of the 22 authorized development zones. The authorized zones are located in: Beloit; Eau Claire; Fond du Lac; Green Bay; Janesville; Manitowoc; Milwaukee; Racine; Richland Center; Sturgeon Bay; Superior; Two Rivers; Ashland and Bayfield Counties; Iron County; Florence, Forest, Lincoln and Langlade Counties (North Four); Juneau, Adams and Marquette Counties; Grant and LaFayette Counties; Marinette County; and the Lac du Flambeau and Stockbridge-Munsee Indian Reservations. A total of $33.155 million in tax credits is authorized for these zones. (AB 133 would establish the total tax credit allocation for both the development and enterprise development zone programs at $300 million.). Through April 1999, a total of $22.8 million in development zone credits had been allocated to businesses in the zones. Table 1 provides summary information about individual development zones.

TABLE 1

Development Zone Program

Development Zone	Total Credits Allocated	Allocations to Businesses	Credits Remaining	Percent to Business	Certified Businesses	Investment	Jobs Credits	Jobs	Target Groups
1989									
Beloit	$1,250,000	$703,061	$546,939	56.24%	7	$7,506,952	$396,000	108	3
Iron County	1,026,000	814,554	211,446	79.39	24	7,607,024	534,976	153	67
Manitowoc	2,508,831	2,201,579	307,252	87.75	21	42,289,015	1,460,118	896	447
Milwaukee	5,785,074	4,502,224	1,282,850	77.82	85	59,530,652	3,941,237	1,954	1,212
Racine	2,026,145	1,872,556	153,589	92.42	20	61,477,739	1,108,934	279	573
Stockbridge-Munsee	400,000	267,720	132,280	66.93	4	6,814,655	151,942	99	2
Sturgeon Bay	1,908,950	1,691,028	217,922	88.58	42	20,122,854	1,030,757	549	383
Superior	1,700,000	1,359,597	340,403	79.98	31	13,756,317	778,990	418	87
1991									
Fond du Lac	1,250,000	1,134,276	115,724	90.74	26	12,365,864	635,814	207	34
Green Bay	1,800,000	1,239,114	560,886	68.84	21	7,132,313	1,458,195	209	424
Lac du Flambeau	750,000	448,833	301,167	59.84	6	3,942,000	276,600	67	42
Richland Center	750,000	561,655	188,345	74.89	14	8,581,900	463,574	446	121
1995									
Eau Claire	1,950,000	1,662,427	287,573	85.25	36	18,648,771	970,657	311	87
Two Rivers	1,250,000	929,171	320,829	74.33	16	5,674,475	308,005	167	31
1996									
Janesville	1,000,000	451,701	548,299	45.17	8	19,180,000	281,201	195	30
Lincoln, Langlade, Florence and Forest Counties	1,250,000	509,187	740,813	40.73	19	8,109,692	350,000	180	1
Grant and Lafayette Counties	1,000,000	737,363	262,637	73.74	25	7,247,612	433,057	181	9
Juneau, Adams and Marquette Counties	1,200,000	923,933	276,067	76.99	18	14,892,855	556,905	262	16
1998									
Marinette	750,000	401,000	349,000	53.47	4	15,980,000	250,000	85	-
Ashland and Bayfield Counties	1,000,000	360,000	640,000	36.00	2	5,700,000	295,000	72	-
TOTAL	$30,555,000	$22,770,979	$7,784,021	74.52%	429	$346,560,690	$15,681,962	6,838	3,569

2. The 1995-97 budget (1995 Wisconsin Act 27) created the enterprise development zone program administered by the Department of Commerce. A business that conducts or intends to conduct economic activity in an area of the state can request to have the area designated as an enterprise development zone by submitting an application and a project plan to Commerce. The Department can designate the area as an enterprise development zone if the area meets certain criteria and the Department approves the project plan. A business that conducts economic activity in an enterprise development zone and is certified by Commerce can claim the development zone tax credits. Only one person in a zone is eligible for tax benefits in the zone. The maximum amount of credits that can be claimed by an eligible business in an enterprise development zone is established by Commerce but cannot exceed $3 million. Commerce cannot designate more than 50 enterprise development zones unless it receives approval from the Joint Committee on Finance. In September 1998, the Committee, acting under s. 13.10, authorized the Department to create 14 additional enterprise development zones for a total of 64. Through April 1999, 44 enterprise development zones had been designated in 42 different cities. A total of $74.7 million in development zone tax credits had been allocated to businesses in enterprise development zones. Table 2 provides summary information about individual enterprise development zones.

TABLE 2

ENTERPRISE DEVELOPMENT ZONE PROGRAM

City	Company Name	Certification Date	Zone Investment	Jobs Created	Jobs Retained	Credit Allocation
New Berlin	Quad/Graphics	August 14, 1995	$96,500,000	500	-	$3,000,000
Weyauwega	Summit Performance Systems	August 22, 1995	2,019,000	150	-	900,000
Eau Claire	W.L. Gore	September 19, 1995	70,000,000	450	-	1,756,667
Oconto	Cera-Mite Corp.	November 1, 1995	5,000,000	150	-	900,000
Neilsville	Leeson Electric	November 1, 1995	2,500,000	150	-	900,000
Marinette	Karl Schmidt Unisia	January 12, 1996	2,100,000	350	630	2,100,000
Menominee Falls	Strong Capital Management, Inc.	February 12, 1996	30,000,000	500	450	3,000,000
Wisconsin Rapids	Advantage Learning Systems, Inc.	February 13, 1996	10,000,000	370	130	2,000,000
Kenosha	Chrysler Corp.	April 1, 1996	364,000,000	414	1,405	3,000,000
Franklin	Harley-Davidson Motor Co.	April 1, 1996	20,000,000	200	-	1,200,000
Milwaukee	Waldorf Corp.	June 28, 1996	8,000,000	25	175	1,200,000
Shawano	Aarrowcast, Inc.	July 4, 1996	13,500,000	312	247	1,068,000
Chippewa Falls	Johnson Mathey, Inc.	August 1, 1996	47,700,000	600	-	2,750,000
Prairie du Chein	Cabela's of Wisconsin	August 29, 1996	16,000,000	650	-	2,000,000
Brookfield	Ameritech	September 19, 1996	12,000,000	666	6,166	3,000,000
Wauwatosa & Menominee Falls	Harley-Davidson Motor Co.	September 27, 1996	99,000,000	400	1,310	2,400,000
Ladysmith	Weathershield	October 25, 1996	6,200,000	200	-	1,200,000
Janesville	Accudyne	November 10, 1996	3,500,000	-	250	1,000,000
Dodgeville	Land's End	November 20, 1996	62,000,000	666	-	3,000,000
Bellevue & Manitowoc	Krueger International	January 10, 1997	7,609,000	175	449	1,050,000
Sheboygan	J.L. French Corp.	February 1, 1997	43,000,000	220	720	1,320,000
Kenosha	Snap-on, Inc.	February 14, 1997	2,700,000	160	-	960,000
Green Bay	Schreiber Foods	April 22, 1997	27,000,000	120	791	540,000
Saukville & Milwaukee	Charter Manufacturing	March 21, 1997	42,000,000	200	676	1,200,000
Racine	J.I. Case	May 1, 1997	115,476,500	500	1,739	3,000,000
Chetek	Parker Hannifin	June 1, 1997	2,400,000	100	-	600,000
Pewaukee	Applied Power	June 16, 1997	8,600,000	130	51	650,000
Oconto	KCS International	June 18, 1997	2,500,000	120	417	720,000
Platteville	Hypro Inc.	July 31, 1997	5,500,000	150	-	900,000
Wausau	Award Flooring	August 1, 1997	13,400,000	175	-	775,000
Manawa	Kolbe & Kolbe	August 18, 1997	2,100,000	200	-	1,500,000
De Pere	Moore Response	September 1, 1997	81,000,000	471	800	3,000,000
Bonduel	Krueger International	November 17, 1997	4,650,000	375	-	2,250,000
Ripon	Alliant Laundry Systems	May 1, 1998	31,000,000	200	480	3,000,000
Hudson	Cardinal Health	April 1, 1998	8,500,000	71	-	426,000
Port Washington	Simplicity	March 31, 1998	10,000,000	60	470	2,180,000
Racine	Norsky Skog*		30,000,000	600	-	3,000,000
Milwaukee	Johnson Control	September 1, 1998	17,000,000	350	80	1,750,000
Germantown	Rockwell Automation	March 1, 1998	28,000,000	65	460	2,165,000
Milwaukee	Carson Pirie Scott	May 31, 1998	18,000,000	-	736	2,088,000
Wausau/Gillett	Wausaukee Composites	April 15, 1998	2,700,000	200	132	1,000,000
Oshkosh/Appleton	Hoffmaster	August 1, 1998	8,000,000	138	105	2,000,000
Ashwaubenon	AXPC (American Express)	February 15, 1999	20,000,000	357	-	1,785,000
Kenosha	Sunstrand	April 1, 1999	8,900,000	91	-	455,000
TOTAL			$1,410,045,500	11,981	18,869	$74,688,667
		Average	32,046,489	272	429	1,697,470

* Businesses have not been certified.

3. Initially, there were five different tax credits available to businesses that expanded or located in development zones: (a) jobs tax credit; (b) investment credit; (c) location credit; (d) sales tax credit; and (e) the additional research credit for corporations. The jobs credit was equal to 40%

of the first $6,000 of qualified wages paid by employers to employes who were members of a target group. The credit could be claimed for qualified wages paid in the first two years that each employe worked for the claimant. The 1993-95 budget (1993 Wisconsin Act 16) created a credit for 10% of the wages earned by resident employes, up to a maximum of $600. The environmental remediation and day care credits were added in 1995 Wisconsin Act 27. Subsequently, 1995 Wisconsin Act 209 further modified the jobs tax credit to equal 20% of the first $13,000 of qualified wages for members of a targeted group and 25% of the first $13,000 wages for individuals in W-2 employment positions. The bill also clarified calculation of the resident jobs credit. Finally, the seven development zone credits were eliminated and consolidated into the current environmental remediation and jobs tax credits in 1997 Wisconsin Act 27 (the 1997-99 biennial budget).

4. AB 133 would make a number of significant changes to the current development zone jobs credit that are designed to increase the incentive to invest and create jobs in development and enterprise development zones. As noted, the maximum credit that could be claimed for creating a full-time job for a member of a target group would be increased 23%, from $6,500 to $8,000. Similarly, the maximum credit that could be claimed for creating or retaining a full-time job for a non-target group member would be increased 50%, from $4,000 to $6,000. More significantly, an $8,000 tax credit would be provided for retaining a full-time job in an enterprise zone if Commerce determined that a significant capital investment was made to retain the full-time job. The Department indicates that the elimination of the investment, sales tax and location credits has made it more difficult to attract large capital investments into the zones. In addition, some businesses in zones will not be able to claim anticipated credits for future investments. Commerce believes that current labor shortages and other economic factors are causing many businesses to evaluate the cost of making large expenditures for plant and equipment and overall expansion. The Department believes it is necessary to increase the development and enterprise development zone tax incentives to attract investment and retain jobs in the state.

5. Overall, economic literature on the effectiveness of enterprise zone tax incentives is inconclusive in that different studies have found, to varying degrees, both positive and negative results. Some of the positive economic studies have found: (a) growth rates of gross job increases were higher than the national rate in certain zones; (b) when the multiplier effect is taken into account, $1.90 in state and local taxes was generated for every dollar of incentives received in New Jersey zones; and (c) unemployment claims dropped by about 19% following zone designation in Indiana. Conversely, other studies have determined that the program did not influence employment growth in three Maryland zones and the Indiana program did not affect the level of inventories and investment in machinery and equipment in zones.

Although the empirical evidence on the effectiveness of enterprise zones in increasing jobs and investment is generally inconclusive, the evidence is moderately positive for areas with potential for economic growth. In addition, the literature does provide some consensus that tax incentives alone will not lead to economic growth, particularly in the most distressed areas. It appears that any tax incentives should be part of a comprehensive economic development strategy. From this view, the effectiveness of the tax credits will be dependent on other economic development activities promoted and undertaken in the zones by state and local officials (for example, infrastructure improvements constructed by communities). Such economic development activities by state and local officials are generally provided through the development zone and enterprise development zone programs. However, the zone designation criteria may not always ensure that an economically viable area would be selected.

6. Increasing the amount that could be claimed for the development zone jobs tax credit would have a minimal fiscal effect in the 1999-01 biennium. The increased credits would first be available for tax year 2000. The process of Commerce allocating amounts to zones, the zones allocating the credits to individual businesses (in the case of development zones) and then the businesses taking the action to claim the credits would delay any significant fiscal effect beyond the current biennium. Moreover, the entire amount allocated to a business would not be claimed in one year, but would be claimed as investments were made and employes were hired as the business expanded. Also, many new and expanding businesses have little or no tax liability; in these cases unused development zone credits would be carried forward to offset future tax liabilities. However, the change to the job credit would increase the potential amount that could be claimed by a minimum of 23%. This could have a significant fiscal effect in future years. For example, the average amount of credits allocated per enterprise zone is $1.7 million and the total amount allocated to the 44 zones is almost $75 million. If the total amount of credits claimed were increased 23%, the average amount of credits per zone would be $2.1 million and the total amount of credits allocated statewide would be $92.3 million. The fiscal effect of increasing the development zone credits will be reflected in revenue estimates for the next biennium.

7. Historically, development zones credits could offset only the net income from the claimant's businesses activities in the development or enterprise development zone. However, when the development zone credits were consolidated into the current jobs and environmental remediation credit under 1997 Act 27, a statutory cross-reference to this requirement was not included. As a result, development zone credits are not limited to offsetting the claimant's income from the zone. To change this situation, the Committee could specify that the consolidated development zone credit can only offset income from business activities in the development or enterprise development zone.

ALTERNATIVES

1. Approve the Governor's recommendation to modify the full-time jobs component of the development zones tax credit as follows: (a) increase from $6,500 to $8,000 the maximum credit that could be claimed for each full-time job that was created and filled by a member of a targeted group; (b) eliminate the credit for retaining a job that is filled by a member of a targeted group; (c) provide a maximum tax credit of $8,000 for retaining a full-time job in an enterprise development zone if Commerce determines that a significant capital investment was made to retain the full time job; and (d) increase from $4,000 to $6,000 the maximum tax credit that could be claimed for each full-time job created or retained and filled by an individual who is not a member of a targeted group. In addition, require that at least one-third of jobs credits claimed be based on jobs created and filled by members of a targeted group.

2. Modify the Governor's recommendation to specify that development zone credits

could only be used to offset income from the claimant's business activities in the development or enterprise development zone.

3. Maintain current law.

Prepared by: Ron Shanovich

(Gov) Agency: General Fund Taxes -- Development Zone and Enterprise Development Zone Program Modifications

Recommendations:

Paper #115: Alternative 2 a + d

Comments: The governor proposes to eliminate the current \$33 million limit on the number of tax credits that can be claimed under the development zone program and establish a new limit of \$300 million -- and authorize Commerce to designate up to 100 enterprise development zones, at least 10 of which would be for environmental remediation.

Fiscal Bureau points out (Point 17) that at the current pace, Commerce has authority to continue creating zones for a year and a half. If more zones are needed, they could come back to the committee.

Alternative 2 deletes the governor's recommendation.

- 2a.) increases the amount of credits by \$5 million, which was the department's request.
- 2d.) requires Commerce to designate five enterprise development zones for environmental remediation projects.

These options allow support for the program overall, and emphasize the importance of environmental remediation.

2a + b adopted

Prepared by: Bob

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June 7, 1999 Joint Committee on Finance Paper #115

Development Zone and Enterprise Development Zone Program Modifications (General Fund Taxes)

[LFB 1999-01 Budget Summary: Page 41, #11 and Page 139, #13]

CURRENT LAW

Wisconsin has two programs which provide tax credits to businesses as incentives to expand and locate in designated economically distressed areas--development zones and enterprise development zones. The programs are designed to promote economic growth through job creation and investment in the distressed areas. Designation criteria target areas with high unemployment, low incomes and decreasing property values. Businesses that locate or expand in the different zones are eligible to receive environmental remediation and full-time jobs tax credits.

GOVERNOR

Modify the development and enterprise development zones programs and tax credits as follows:

a. Eliminate the current limit on the total amount of tax credits that can be claimed under the development zone program of $33,155,000 and establish a maximum limit on the total amount of tax credits that could be claimed under both the development and enterprise development zone programs of $300,000,000.

b. Authorize the Department of Commerce to designate up to 100 enterprise development zones. In addition, Commerce would be authorized to designate enterprise development zones for environmental remediation projects. The Department would be required to designate at least 10 zones for environmental remediation projects.

DISCUSSION POINTS

Development Zones

1. The development zone program was created in 1987. The Department of Commerce (at that time, the Department of Development) was given authority to designate eight development zones throughout the state and a total of $14 million was authorized for tax credits over the life of the program. Since it was first established in 1987, the development zone program has been expanded a number of times. In 1990, the development zone program was expanded to allow for designation of four additional zones and an additional $4.155 million in total tax credits. In the 1993-95 budget, the program was further expanded to increase by two to a total of 14, the number of development zones that could be designated. The total amount of tax credits that could be allocated was increased by $3 million to $21.155 million. In 1995, the number of development zones that could be designated was increased from 14 to 18 and the total amount of statewide credits was increased by $7 million, to a total of $28.155 million. Most recently, the 1997-99 biennial budget (1997 Wisconsin Act 27) increased the number of development zones that could be designated from 18 to 22 and the total amount of credits that could be claimed was increased by $5 million to a total of $33.155 million.

2. As of January, 1999, Commerce had designated 20 of the 22 authorized development zones. The authorized zones are located in: Beloit; Eau Claire; Fond du Lac; Green Bay; Janesville; Manitowoc; Milwaukee; Racine; Richland County; Sturgeon Bay; Superior; Two Rivers; Ashland and Bayfield Counties; Iron County; Florence, Forest, Lincoln and Langlade Counties (North Four); Juneau, Adams and Marquette Counties; Grant and LaFayette Counties; Marinette County; and the Lac du Flambeau and Stockbridge-Munsee Indian Reservations.

3. Designation as a development zone is effective for seven years (84 months). The local governing body can apply to Commerce for up to five, one-year extensions of the designation.

4. Commerce allocates a portion of the total statewide credit amount to each development zone. Economic development staff in each zone assign credits to eligible businesses within each zone based on the applications of the businesses and recommendations of local officials, subject to the approval of Commerce. Under a provision of 1995 Act 209, Commerce was authorized to allocate up to $500,000 in additional tax benefits to any of the 14 zones that were designated before April 25, 1996. The 1997-99 biennial budget modified the development zone provisions to authorize Commerce to increase the established limit for tax credits for all development zones. Under these provisions, Commerce has made a total of $6.1 million in additional tax credit allocations.

5. Table 1 shows the total amount of credits allocated to each development zone, including additional credit allocations, and the amount of credits allocated to businesses in the zones.

TABLE 1

Community Development Zones

Development Zone	Total Credits Allocated	Additional Allocation	Allocations to Businesses	Credits Remaining	Percent to Business	Certified Businesses	Estimated Investment
1989							
Beloit	$1,250,000		$703,061	$546,939	56.24%	7	$7,506,952
Iron County	1,026,000		814,554	211,446	79.39%	24	7,607,024
Manitowoc	2,508,831	$1,162,000	2,201,579	307,252	87.75%	21	42,289,015
Milwaukee	5,785,074	1,129,121	4,502,224	1,282,850	77.82%	85	59,530,652
Racine	2,026,145	526,145	1,872,556	153,589	92.42%	20	61,477,739
Stockbridge-Munsee	400,000		267,720	132,280	66.93%	4	6,814,655
Sturgeon Bay	1,908,950	925,950	1,691,028	217,922	88.58%	42	20,122,854
Superior	1,700,000	450,000	1,359,597	340,403	79.98%	31	13,756,317
1991							
Fond du Lac	1,250,000		1,134,276	115,724	90.74%	26	12,365,864
Green Bay	1,800,000	300,000	1,239,114	560,886	68.84%	21	7,132,313
Lac du Flambeau	750,000		448,833	301,167	59.84%	6	3,942,000
Richland Center/Town of Richland	750,000		561,655	188,345	74.89%	14	8,581,900
1995							
Eau Claire	1,950,000	450,000	1,662,427	287,573	85.25%	36	18,648,771
Two Rivers	1,250,000	500,000	929,171	320,829	74.33%	16	5,674,475
1996							
Janesville	1,000,000		451,701	548,299	45.17%	8	19,180,000
Lincoln, Langlade, Florence and Forest Counties	1,250,000	500,000	509,187	740,813	40.73%	19	8,109,692
Grant and Lafayette Counties	1,000,000		737,363	262,637	73.74%	25	7,247,612
Juneau, Adams and Marquette Counties	1,200,000	200,000	923,933	276,067	76.99%	18	14,892,855
1998							
Marinette	750,000	---	401,000	349,000	53.47%	4	15,980,000
Ashland and Bayfield Counties	1,000,000	---	360,000	640,000	36.00%	2	5,700,000
TOTAL	$30,555,000	$6,143,216	$22,770,979	$7,784,021	74.52%	429	$346,560,690

6. The development zone program is viewed as a means of encouraging long-term, sustainable economic development. Those that hold this view note the growth in investment and employment that has occurred under the program. According to Commerce, since the first eight development zones were established in 1989, the program has generated $346.6 million in investment and created almost 7,000 jobs in the zones. The table shows that 74.5% of the total statewide tax credit allocation (including additional credit allocations) had been allocated to businesses in the development zones. The zones in Manitowoc, Milwaukee, Racine, Sturgeon Bay, Superior, Fond du Lac Richland Center, Iron County, and Juneau, Adams and Marquette Counties had, at a minimum, allocated 75% of the total allocation to businesses. It is argued that the credit allocations to these and other development zones will be exhausted before the zones expire. As a result, there will be little incentive for businesses to expand or locate in these zones. This will inhibit job growth in areas of the state that are experiencing economic distress.

7. Through May 1, 1999, $30.555 million of the total $33.155 million statewide credit authority had been allocated to the 20 development zones. The Department had a credit reserve of $2.4 million. This amount could be used to allocate additional credits to development zones. Moreover, statewide, $7.8 million of the credits allocated to zones have not been allocated to businesses within the zones. Some would argue that, since there are $10.2 million in statewide credits that have not been allocated businesses there is no need to increase the total state allocation.

8. Table 2 shows how the components of the consolidated tax credit limit for both development and enterprise development zones were derived. One component of this calculation is $5 million in additional credits for the development zone program. This additional $5 million in development zone credits was included in Commerce's budget request. As an alternative, the Committee could increase the current total credit limit by $5 million, from $33.2 million to $38.2 million. However, the consolidated limit included in the bill would allow the Department more flexibility to allocate credits to projects which have the greatest economic benefit, regardless of location.

TABLE 2

Components of AB 133 Development Zone and Enterprise Development Zone Total Credit Limit (Millions)

Current Development Zone Limit	$33.2
Requested Additional Development Zone Credits	5.0
Current Maximum Enterprise Development Zone Limit ($3.0 million x 64)	$192.0
Credits for Additional Enterprise Development Zones	69.8
Total Credit Limit	$300.0

Enterprise Development Zones

9. The 1995-97 budget created the enterprise development zone program. A business that conducts or that intends to conduct economic activity in an area of the state can apply to Commerce to have the area designated as an enterprise development zone by submitting an application and a project plan. The Department can designate the area as an enterprise development zone if the area meets certain criteria and Commerce approves the project plan. Commerce is authorized to establish the length of time an enterprise development zone can be designated, but the zone cannot be designated for more than seven years (84 months). The Department cannot designate more than 50 enterprise development zones unless it receives approval from the Joint Committee on Finance. At the September, 1998, meeting under s. 13.10, the Joint Committee on Finance increased the number of enterprise development zones that could be created from 50 to 64. Through May 1, 1999, 44 enterprise development zones had been designated in 42 cities.

10. A business that conducts economic activity in an enterprise development zone and is certified by Commerce can claim the development zone consolidated credit. Only one person is eligible for tax benefits in an enterprise development zone. The maximum amount of credits that can be claimed by a business is established by Commerce, but cannot exceed $3 million. The Department is annually required to estimate the amount of forgone tax revenues because of tax benefits claimed by businesses in zones. A zone expires 90 days after the limit on tax benefits is exceeded.

11. The project plans submitted by businesses must include information about the proposed business activities that will be conducted in the zone, including the number of jobs that will be created or retained and the amount of investment that will be made in the zone. The Department evaluates the proposed zone based on the designation criteria and designates the zone based on these criteria. After it is determined that the zone meets the required criteria, the Department reviews and approves the application and plan. Also, after the Department designates an enterprise development zone, it determines the amount of tax credits that will be allocated and certifies the business as eligible for those credits. Since only one business in a zone can claim tax credits, the designated zones are relatively small areas in which a single business is located.

12. Table 3 provides summary information about the enterprise development zone program. The table shows that, since the program began in August, 1995, 44 enterprise development zones have been designated in 42 cities through out the state. About $74.7 million in tax credits have been allocated to the zones. Credit allocations range from $426,000 to $3 million, with an average allocation of $1.7 million per zone.

TABLE 3

Enterprise Development Zone Program

City	Company Name	Zone Certification Date	Jobs Investment	Jobs Created	Credit Retained	Allocation
New Berlin	Quad/Graphics	August 14, 1995	$96,500,000	500	---	$3,000,000
Weyauwega	Summit Performance Systems	August 22, 1995	2,019,000	150	---	900,000
Eau Claire	W.L. Gore	September 19, 1995	70,000,000	450	---	1,756,667
Oconto	Cera-Mite Corp.	November 1, 1995	5,000,000	150	---	900,000
Neilsville	Leeson Electric	November 1, 1995	2,500,000	150	---	900,000
Marinette	Karl Schmidt Unisia	January 12, 1996	2,100,000	350	630	2,100,000
Menominee Falls	Strong Capital Management, Inc.	February 12, 1996	30,000,000	500	450	3,000,000
Wisconsin Rapids	Advantage Learning Systems, Inc.	February 13, 1996	10,000,000	370	130	2,000,000
Kenosha	Chrysler Corp.	April 1, 1996	364,000,000	414	1,405	3,000,000
Franklin	Harley-Davidson Motor Co.	April 1, 1996	20,000,000	200	---	1,200,000
Milwaukee	Waldorf Corp.	June 28, 1996	8,000,000	25	175	1,200,000
Shawano	Aarrowcast, Inc.	July 4, 1996	13,500,000	312	247	1,068,000
Chippewa Falls	Johnson Mathey, Inc.	August 1, 1996	47,700,000	600	---	2,750,000
Prairie du Chein	Cabela's of Wisconsin	August 29, 1996	16,000,000	650	---	2,000,000
Brookfield	Ameritech	September 19, 1996	12,000,000	666	6,166	3,000,000
Wauwatosa & Menominee Falls	Harley-Davidson Motor Co.	September 27, 1996	99,000,000	400	1,310	2,400,000
Ladysmith	Weathershield	October 25, 1996	6,200,000	200	---	1,200,000
Janesville	Accudyne	November 10, 1996	3,500,000	0	250	1,000,000
Dodgeville	Land's End	November 20, 1996	62,000,000	666	---	3,000,000
Bellevue & Manitowoc	Krueger International	January 10, 1997	7,600,000	175	449	1,050,000
Sheboygan	J.L. French Corp.	February 1, 1997	43,000,000	220	720	1,320,000
Kenosha	Snap-on, Inc.	February 14, 1997	2,700,000	160	---	960,000
Green Bay	Schreiber Foods	April 22, 1997	27,000,000	120	791	540,000
Saukville & Milwaukee	Charter Manufacturing	March 21, 1997	42,000,000	200	676	1,200,000
Racine	J.I. Case	May 1, 1997	115,476,500	500	1,739	3,000,000
Chetek	Parker Hannifin	June 1, 1997	2,400,000	100	---	600,000
Pewaukee	Applied Power	June 16, 1997	8,600,000	130	51	650,000
Oconto	KCS International	June 18, 1997	2,500,000	120	417	720,000
Platteville	Hypro Inc.	July 31, 1997	5,500,000	150	---	900,000
Wausau	Award Flooring	August 1, 1997	13,400,000	175	---	775,000
Manawa	Kolbe & Kolbe	August 18, 1997	2,100,000	200	---	1,500,000
De Pere	Moore Response	September 1, 1997	81,000,000	471	800	3,000,000
Bonduel	Krueger International	November 17, 1997	4,650,000	375	---	2,250,000
Ripon	Alliant Laundry Systems	May 1, 1998	31,000,000	200	480	3,000,000
Hudson	Cardinal Health	April 1, 1998	8,500,000	71	---	426,000
Port Washington	Simplicity	March 31, 1998	10,000,000	60	470	2,180,000
Racine	Norsky Skog*		30,000,000	600	---	3,000,000
Milwaukee	Johnson Control	September 1, 1998	17,000,000	350	80	1,750,000
Germantown	Rockwell Automation	March 1, 1998	28,000,000	65	460	2,165,000
Milwaukee	Carson Pirie Scott	May 31, 1998	18,000,000	0	736	2,088,000
Wausau/Gillett	Wausaukee Composites	April 15, 1998	2,700,000	200	132	1,000,000
Oshkosh/Appleton	Hoffmaster	August 1, 1998	8,000,000	138	105	2,000,000
Ashwaubenon	AXPC (American Express)	February 15, 1999	20,000,000	357	---	1,785,000
Kenosha	Sunstrand	April 1, 1999	8,900,000	91	---	455,000
TOTAL			$1,410,045,500	11,981	18,869	$74,688,667
		Average	$32,046,489	272	429	$1,697,470

* Businesses have not been certified.

13. As noted, Commerce is required to obtain Finance Committee approval to designate more than 50 enterprise zones and the Department received approval for 14 additional zones at the September 1998 meeting under s. 13.10. Under the bill, the Committee's authority is deleted and Commerce is given statutory authority to designate up to 100 zones. The total amount of development zone tax credits that could be claimed for both the enterprise development zone and development zone programs would be established at $300 million.

14. The enterprise development zone program is designed to promote economic growth and employment through job creation and investment, particularly in economically distressed areas. Designation criteria target areas with high unemployment, low incomes, high proportions of W-2 participants, recent layoffs, or declining populations or property values. Commerce indicates that the enterprise development zone program is an important program for stimulating economic development and growth and job creation in Wisconsin. The Department notes that enterprise development zones involve large projects that create or retain hundreds of jobs. An estimated 11,981 jobs will be created and another 18,869 jobs will be retained by the 44 businesses participating in the program. Total statewide investment is expected to be over $1.4 billion.

15. There is concern that, if the enterprise development zones program becomes too large, it would compete with the community development zones program. Some economic development studies have indicated that development zone programs are most effective in attracting investment when they are limited to a small number of economically distressed areas of the state. The development zone program is designed to attract businesses to these areas. Enterprise development zones are more limited areas that encompass one business. Although, both types of zones can be located in similar areas of economic distress, it is possible that a business that would otherwise undertake a new development project in a development zone would instead locate in an enterprise development zone because the local community was generally economically well off.

16. The enterprise development zone program was included in the 1995-97 budget by the Joint Committee on Finance. The Committee established the requirement that Commerce obtain approval before exceeding 50 zones in order to have the opportunity to review the program when it achieved a certain level of participation. When the approval requirement was set, 50 zones was viewed as a level that would be sufficient to allow the Department to encourage economic development projects that would provide significant benefits to the state economy while directing those projects to areas that were experiencing economic distress. At the same time, the number of zones would be limited enough so that the Department would be required to designate projects which would have the most significant economic impacts when compared to other applicants. The Committee has since approved the creation of 14 additional zones after reviewing a request by the Department that the program be expanded to 100 zones. In the Committee's view, the more limited expansion was sufficient for the program to promote economic development activities in the state.

17. Commerce still has authority to create 20 more zones without Committee approval. Since the beginning of the enterprise development zone program, no more than 14 zones have been established in a year. Thus, under current law provisions, the Department has sufficient authority to expand the program at its historic pace at least for another year and one-half. If additional zone

authority would be necessary in the future, the Department could again request approval from the Committee. As an alternative, the Committee could approve an additional 15 zones or a total of 79. This would allow the Department to create 14 zones each in 1999 and 2000 and 7 in the first half of 2001.

The bill would require Commerce to designate at least 10 of the 100 enterprise development zones that would be authorized for environmental remediation projects. If the Committee chooses to eliminate or limit the increase in authorized zones it may wish to delete this requirement. As an alternative, the Department could be required to designate at least five zones for environmental remediation projects.

18. By establishing a total credit limit of $300 million for both development and enterprise development zones and authorizing a total of 100 enterprise development zones (at a maximum of $3 million each) the bill would potentially reduce the total statewide amount of credits that could be allocated to individual enterprise development zones. However, since the 44 existing enterprise development zones have actually averaged less than $1.7 million each in tax credit allocations, a $300 million cap is not expected to restrict Commerce's ability to fund remaining enterprise development zones. Table 2 indicates that an estimated $69.8 million in tax credits would be allocated to 36 additional enterprise zones for an average of about $1.9 million per zone. As noted, an average of $1.7 million has been allocated to the current zones. As a result, the Committee could reduce the maximum total credits that could be claimed in an enterprise development zone from $3 to $2 million. This would set the limit at approximately the average credit amounts for current zones. However, a significant number of enterprise development zones are allocated $3.0 million in tax credits. Reducing this limit could act as a disincentive for some worthwhile economic development projects, particularly in the case of environmental remediation projects that would be authorized under the bill.

19. Increasing and consolidating the total credit limit for development and enterprise development zones and increasing the number of enterprise development zones would have a minimal fiscal effect in the 1999-01 biennium. Commerce would have to review and approve applications and project plans for enterprise development zones and allocate and certify tax credits to businesses. The businesses would have to take actions, such as hiring workers, that would be necessary to claim the credits. Also, the entire amount allocated to an individual business would not be claimed in a single year, but would be claimed as investments were made and employes were hired. However, the total amount of credits that could be claimed would be increased by $132.1 million, from $167.9 million ($33.2 million--current development zones; $74.7 million current enterprise development zones; $60 million---20 authorized enterprise development zones) to $300 million. If the amount of credits allocated to each enterprise development zone maintained the current average of $1.7 million per zone, the potential revenue loss would be $61.2 million, plus $5 million for development zones ($66.2 million total). If that amount of credits was claimed over the next 10 years, the annualized revenue loss would be $6.6 million. The actual fiscal effect of these provisions will be reflected in future revenue estimates.

ALTERNATIVES

1. Approve the Governor's recommendation to modify the development and enterprise development zones programs to (a) eliminate the current limit on the total amount of tax credits that can be claimed under the development zone program of $33,155,000 and establish a maximum limit on the total amount of tax credits that could be claimed under both the development and enterprise development zone programs of $300,000,000; and (b) authorize the Department of Commerce to designate up to 100 enterprise development zones (at least 10 of which would be for environmental remediation).

2. Delete the Governor's recommendation and, instead, approve one or more of the following:

a. Increase the maximum amount of tax credits that can be claimed under the development zones program by $5 million, from $33.155 million to $38.155 million.

b. Authorize Commerce to create an additional 15 enterprise development zones. The total number of zones authorized would be 79 (up to 100 could be designated with Joint Committee on Finance approval).

c. Reduce, from $3 million to $2 million, the maximum amount of tax credits that could be claimed by a business located in an enterprise development zone.

d. Require Commerce to designate at least five enterprise development zones for environmental remediation projects.

3. Maintain current law.

Prepared by: Ron Shanovich

(Gov) Agency: General Fund Taxes -- Internal Revenue Code Update

Recommendations:

Paper #116: Alternative 1

Comments: Alternative 1 adopts DOR's recommendations for the annual IRC update -- magically improving revenues by $14 million.

Alternative 2 is okay, but it sets a strange precedent by making substantive change to Wisconsin law that is not driven by federal law changes, changing treatment of lottery winnings. It sweetens the pot, however, to the tune of $22 million.

If Alternative 2 is pursued, watch for freestanding motion that would give private investment firms a crack at these annuities. Currently, only the public Multi-State Lottery Association can offer this service in Wisconsin. Fonfara/Driessen are lobbying for this change.

Prepared by: Bob

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June 7, 1999 | Joint Committee on Finance | Paper #116

Internal Revenue Code Update
(General Fund Taxes -- Individual and Corporate Income Taxes)

CURRENT LAW

State tax provisions are generally referenced to definitions under federal law. With limited exceptions, changes to federal law take effect for state purposes only after actions by the Legislature. Each year, the Legislature reviews the previous year's federal law changes to update state references to the federal Internal Revenue Code (IRC). With exceptions, current state tax provisions reference the code in effect as of December 31, 1997.

GOVERNOR

No provision.

DISCUSSION POINTS

1. In a letter dated May 11, 1999, the administration requested that the Joint Committee on Finance incorporate an IRC update into the Committee's version of the budget. The majority of changes in federal law that affect the IRC were part of the Internal Revenue Service Restructuring and Reform Act, the Transportation Act for the 21st Century and the Omnibus Consolidated and Emergency Supplemental Appropriations Act.

2. The administration recommends that, beginning in tax year 1999, state individual income and corporate and franchise income tax provisions be referenced to the federal IRC would refer to the code in effect on December 31, 1998.

3. State references to federal law generally provide greater simplicity for taxpayers in preparing returns and reduce the administrative burden and cost for both taxpayers and the Department of Revenue (DOR) in assuring compliance with tax laws. The IRC references are used

to determine which items of income are subject to taxation prior to specific state modifications. The state uses separate tax rates and brackets and separate provisions regarding standard deductions, itemized deductions and tax credits.

4. The majority of items are estimated to have a minimal, unknown or no fiscal effect. In total, DOR estimates that the IRC update provisions would increase general fund revenues by $12,115,000 in 1999-00 and $3,780,000 in 2000-01. These estimates have been revised and now total $15,915,000 in 1999-00 and $6,155,000 in 2000-01. The revised estimates are higher than DOR's by $3,800,000 in 1999-00 and $2,375,000 in 2000-01 and reflect a statutory change related to the Wisconsin lottery, which is explained later in this paper. If this change is not made, the estimated fiscal effect of the IRC update would be $10,215,000 in 1999-00 and $3,855,000 in 2000-01. The following table provides a summary of the items that are estimated to have an impact on state revenues.

Summary of Federal Law Changes with Substantive Fiscal Effects

	1999-00	2000-01
Individual Income Tax		
Exclusion for Transportation Fringe Benefits	-$635,000	-$375,000
Treatment of Lottery Prizes with Cash or Annuity Option*	5,700,000	2,300,000
Individual Total	$5,065,000	$1,925,000
Corporate and Business Taxes		
Meals Provided for Convenience of Employer	-$200,000	-$150,000
Deduction for Deferred Compensation	7,870,000	2,680,000
Mark-to-Market Treatment Denied to Customer Receivables	3,180,000	1,700,000
Corporate and Business Total	$10,850,000	$4,230,000
IRC Update Total	$15,915,000	$6,155,000

* The amounts in the table reflect a statutory change related to the Wisconsin lottery, which is explained later in this paper. If this change were not made, the estimated fiscal effect of the IRC update would be $10,215,000 in 1999-00 and $3,855,000 in 2000-01.

5. The following sections briefly outline the new federal provisions that would have a state fiscal effect. The Appendix lists the other federal provisions that would be adopted, but are estimated to have a minimal state fiscal effect or no fiscal effect.

INDIVIDUAL INCOME TAX

Exclusion for Transportation Fringe Benefits

6. Increase the maximum exclusion for qualified transportation fringe benefits beginning in 1999. The maximum exclusion for parking benefits is increased from $155 per month to $175 and the maximum exclusion for other transportation benefits (such as transit passes or van pools) is increased from $60 per month to $65. These amounts will be indexed for inflation beginning in 2000. In 2002, the maximum exclusion for transit passes, van pools and other transportation benefits is further increased to $100 per month, to be indexed for inflation beginning in the following year.

This provision is effective for tax years beginning after December 31, 1998. The estimated fiscal effect is a revenue decrease of $635,000 in 1999-00 and $375,000 in 2000-01.

Treatment of Lottery Prizes with Cash or Annuity Option

7. Provide that the winner of a prize who chooses, if a choice is available, to receive their winnings as an annuity rather than in a lump sum distribution would pay taxes on the income as the payments are received if the designation is exercised within 60 days after the winner became entitled to the prize. This would apply to lotteries, jackpots, games or similar arrangements that provide a series of payments for a period of at least 10 years. This provision is effective for prizes to which the taxpayer first becomes entitled after October 21, 1998. The provision also applies to a prize to which the taxpayer became entitled on or before October 21, 1998, if the option is exercised during the 18-month period beginning on July 1, 1999, and ending on December 31, 2000.

Under prior federal law, the tax treatment of lottery winnings paid as installments depended upon when the winner of the prize was permitted to elect to receive the prize as a lump sum payment or an annuity. If the election was required to be made *at the time the ticket was purchased* (which is the current policy for the Wisconsin lottery), an individual who chose to receive the prize as an annuity was liable for tax in the year when each installment payment was made. If a lump sum payment was chosen, the entire tax liability occurred in the year when the prize was won.

If, instead, the individual has the option of choosing between a lump sum payment and an annuity *after the prize has been won*, prior federal law and current state law required the individual to pay taxes at the time the prize is won, even if the annuity option is chosen. This provision did not apply to Wisconsin lottery winners because, as noted, the Wisconsin lottery requires the designation to be made at the time the ticket is purchased rather than at the time the prize is won. As a result, the IRC update provision would have no fiscal effect under Wisconsin's current lottery policy.

However, the current lottery policy could be modified to allow prize winners to make the designation within 60 days after winning. The policy could also be modified to allow individuals who won prior to October 21, 1998, and currently receive the prize as an annuity, to designate a lump sum payment for the remaining portion of the prize, if the option is exercised prior to December 31, 2000. The Lottery Division has indicated that it would support this policy change and that statutory language would be required.

An alternative to adopt the change in lottery policy made in conjunction with the federal law change would increase income tax revenues by an estimated $5.7 million in 1999-00 and $2.3 million in 2000-01. These estimates assume that 50% of individuals who are currently receiving their prizes as annuity payments would elect to receive a lump sum, which would result in an immediate tax payment. These additional revenues should be considered one-time in nature because they are associated with projected tax collections from individuals who won a lottery jackpot prior to October 21, 1998. Revenues are also estimated to be $800,000 lower in fiscal year 2001-02 and thereafter due to the loss of taxes that would otherwise have been paid on the annuity payments. These estimates differ from the earlier estimates prepared by DOR because the Department's estimates did not reflect allowing individuals who won the lottery before October 21 to select the lump sum option.

CORPORATE AND BUSINESS TAXES

Meals Provided for the Convenience of an Employer

8. Provide that if more than half of the meals furnished to employes at the employer's premises are for the convenience of the employer, all meals are treated as such and the value of the meals is excludable from the employes' income and fully deductible to the employer. This provision is an exception to the general rule that only 50% of business meals are deductible. Prior to the federal law change, courts held that if substantially all of the meals provided are for the employer's convenience, then the cost of all of the meals is fully deductible because the employer is treated as operating a de minimis eating facility, for which a full deduction is allowed.

The provision would be effective for tax years beginning on July 22, 1998, and would decrease revenues by an estimated $200,000 in 1999-00 and $150,000 in 2000-01.

Deduction for Deferred Compensation

9. Provide that an employer may deduct accrued vacation or severance pay in a particular year only if the vacation or severance pay is actually received by the employe within 2-1/2 months after the end of the tax year. The deduction may not be based solely on the funding or vesting of vacation or severance pay, even if that funding or vesting results in the inclusion of the vacation or severance pay in the taxable income of the employe on or before 2-1/2 months after the end of the tax year.

The actual receipt requirement clarifies what constitutes deferred compensation. For purposes of determining whether an item is deferred compensation, the compensation is not considered to be paid or received until it is actually received by the employe.

Vacation pay is deductible by an employer for the tax year during which it is earned and not treated as deferred compensation, provided that is paid to employes on or before 2-1/2 months after the end of the tax year. In a recent court case, the court considered when compensation is "paid" to an employe. It held that an employer that obtained an irrevocable letter of credit for its accrued liabilities for vacation pay and severance pay within 2-1/2 months after the end of the tax year could deduct those liabilities for the tax year. The basis of the tax court's decision was the fact that the irrevocable letter of credit caused vacation and severance pay to be included in the taxable income of the employes. In the case, employes were considered to have been paid the vacation and severance pay on the date the letter of credit went into effect (within 2-1/2 months of the end of the year), even though the employes did not actually receive the vacation and severance pay within 2-1/2 months of the end of the tax year. Therefore, the company was able to use a letter of credit to obtain a tax deduction for accrued vacation and severance pay liabilities for one tax year even though the actual receipt of that pay by employes was more than 2-1/2 months after the end of the year.

This provision would take effect beginning with tax years ending after July 22, 1998, and would increase state tax revenues by an estimated $7.87 million in 1999-00 and $2.68 million in 2000-01.

Treatment of Mark-to-Market Gains of Electing Traders

10. Clarify that the gain or loss of a securities or commodities trader that is treated as ordinary income solely by reason of election or mark-to-market treatment is not treated as other than gain or loss from a capital asset for purposes of determining net earnings from self employment (NESE) for Self-Employment Contributions Act (SECA) tax purposes, determining whether the passive-type income exception to the publicly-traded partnership rules is met or for purposes of any other IRC provision specified by the Treasury Department in regulations.

The change prevents dealers in securities in nonfinancial goods and services from obtaining a loss deduction not otherwise available to them. The mark-to-market accounting rules for dealers in securities in the Taxpayer Relief Act of 1997 had the unintended effect of allowing this loss deduction. Nonfinancial customer paper is any receivable in the form of bonds, notes, debentures or other evidences of indebtedness produced from the sale of nonfinancial goods and services by persons whose principal activity is selling or providing nonfinancial goods and services. The Treasury Department is directed to prescribe regulations.

A change in accounting method by a taxpayer required to make a change because of these amendments is treated as initiated by the taxpayer and made with the consent of the Secretary of Treasury. The net amount of the adjustments will be prorated over a four-year period beginning with the first tax year.

Securities and commodities traders may elect application of the mark-to-market accounting rules. Gain or loss recognized by an electing taxpayer under these rules is treated as ordinary gain or loss. Under SECA, a tax is imposed on an individual's NESE. Gain or loss from the sale or exchange of a capital asset is excluded from NESE. A publicly-traded partnership generally is treated as a corporation for federal tax purposes. An exception to this rule applies if the 90% or more of the partnership's gross income consists of passive-type income, which includes gain from the sale or disposition of a capital assets.

The provision would take effect for tax years ending after July 22, 1998, and would increase state tax revenues by an estimated $3.18 million in 1999-00 and $1.7 million in 2000-01.

ALTERNATIVES

1. Adopt the provisions requested by the Department of Revenue to update state tax references to the federal IRC in effect as of December 31, 1998. Increase projected income and corporate income tax revenues by $10,215,000 in 1999-00 and $3,855,000 in 2000-01 to reflect the modifications. This alternative does not reflect any change in lottery policy.

Alternative 1	GPR
1999-01 REVENUE (Change to Bill)	$14,070,000

2. Adopt the provisions requested by the Department of Revenue to update state tax references to the federal IRC in effect as of December 31, 1998. Modify current lottery provisions to allow prize winners to make a designation of whether to receive the prize as a lump sum or as an annuity within 60 days after winning. In addition, allow individuals who won prior to October 21, 1998, and currently receive the prize as an annuity, to designate a lump sum payment for the remaining portion of the prize, if the option is exercised prior to December 31, 2000. Increase income and corporate income tax revenues by $15,915,000 in 1999-00 and $6,155,000 in 2000-01 to reflect the modifications.

Alternative 2	GPR
1999-01 REVENUE (Change to Bill)	$22,070,000

3. Maintain current law.

Prepared by: Kelsie Doty and Ron Shanovich

APPENDIX

Individual Income Tax

- 401(k) and 403(b) Hardship Rollover Distributions
- Self-Employed Health Insurance Deduction

Corporate and Other Business Tax Provisions

- Constructive Receipt of Production Flexibility Contract Payments
- Liquidating Distributions of RICs and REITs
- Exclusions from Subpart F Income
- Contributions of Stock to Private Foundations

GENERAL FUND TAXES

Individual and Corporate Income Taxes

LFB Summary Items for Which No Issue Paper Has Been Prepared

Item #	Title
5	Limit Educational Expenses Allowed Under the Itemized Deduction Credit
6	Clarify the Limits and Proration of the Higher Education Tuition Expense Deduction
7	Individual Income tax Deductions for Alimony and Supplemental Unemployment Compensation for Nonresident Taxpayers
8	Distributing Income Tax Refunds Between Formerly Married Persons
12	Development Zones Jobs Tax Credit
13	Development Zones Sales Tax Credit
14	Development Zones Location Credit