*Senate*

# JOINT SURVEY COMMITTEE on TAX EXEMPTIONS

**Senate Bill 451**

Relating to: references to the Internal Revenue Code for income tax and franchise tax purposes, withholding income taxes from the amount paid to purchase the assignment of a lottery prize and requiring the lottery administrator to report to the department of revenue the federal income tax number of an assignee.

By Senator Burke; cosponsored by Representative Gard, by request of the the Department of Revenue.

March 8, 2000 Referred to Joint Committee on Tax Exemptions

March 16, 2000 **PUBLIC HEARING HELD**

Present (9) Senators Decker, Breske and Huelsman
Representatives Hahn, Lehman and Hebl
Secretary of Revenue Cate Zeuske, Mr. Alan Lee and Mr. Paul Vrakas.

Absent (0) None.

Appearances for
- None.

Appearances against
- None

Appearances for Information only
- None

Registrations for
- None

Registrations against
- None

March 16, 2000 **EXECUTIVE SESSION**

Present (9) Senators Decker, Breske and Huelsman
Representatives Hahn, Lehman and Hebl
Secretary of Revenue Cate Zeuske, Mr. Alan

Lee and Mr. Paul Vrakas.

| | | |
|---|---|---|
| Absent | (0) | None. |

Moved by Senator Decker, Seconded by Representative Hahn, that Senate Bill 451 be recommended as good public policy.

| | | |
|---|---|---|
| Ayes | (9) | Senators Decker, Breske and Huelsman Representatives Hahn, Lehman and Hebl Secretary of Revenue Cate Zeuske, Mr. Alan Lee and Mr. Paul Vrakas. |
| Noes | (0) | None. |
| Absent | (0) | None. |

GOOD PUBLIC POLICY RECOMMENDED, Ayes 9, Noes 0, Absent 0

Patrick Walsh

Patrick Walsh
Committee Clerk

*Senate*

# Committee Report

The joint committee on **Tax Exemptions**, reports and recommends:

**Senate Bill 451**

Relating to: references to the Internal Revenue Code for income tax and franchise tax purposes, withholding income taxes from the amount paid to purchase the assignment of a lottery prize and requiring the lottery administrator to report to the department of revenue the federal income tax number of an assignee.

By Senator Burke; cosponsored by Representative Gard, by request of the the Department of Revenue.

GOOD PUBLIC POLICY AS RECOMMENDED, Ayes 9, Noes 0, Absent 0

| | | |
|---|---|---|
| Ayes | (9) | Senators Decker, Breske and Huelsman, Representatives Hahn, Lehman and Hebl Secretary of Revenue Cate Zeuske, Mr. Alan Lee and Mr. Paul Vrakas. |
| Noes | (0) | None. |
| Absent | (0) | None. |

Russ Decker

Senator Russell Decker
Co-Chair

*STATE OF WISCONSIN*

*REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS*

*1999 SENATE BILL 451*

[Introduced by Introduced by Senator Burke; cosponsored by Representative Gard, by request of the Department of Revenue.]

## General Nature of Proposal and Fiscal Effect Upon the State

Generally, references to the Internal Revenue Code (IRC) in Wisconsin's tax code are periodically updated to reflect changes made by Congress to the IRC. This bill updates references to the IRC in Wisconsin's tax code to incorporate recent Congressional changes. In addition, the bill makes changes to current law with respect to the voluntary assignment of lottery prize winnings. The provisions of the bill that affect tax exemptions are more fully described below.

### *1. Employer Provider Educational Assistance*

The recent changes to the IRC extend the exclusion from income for employer provided educational assistance to cover expenses paid by an employer for courses other than graduate level courses beginning before January 1, 2000. Under prior law, the exclusion applied to courses beginning before June 1, 2000. Under federal law, the exclusion is allowed for tuition, fees, books, supplies and equipment. A person may claim an exclusion of no more than $5,250 per year.

The Department of Revenue (DOR) estimates that if the extension of this exclusion is adopted by Wisconsin there will be a revenue loss of $2.2 million in fiscal year 2001 and $1.4 million in fiscal year 2002.

### *2. Environmental Remediation Costs*

The recent changes to the IRC extend the expiration date for an election to deduct certain environmental remediation expenditures that would otherwise be charged to a capital account. The expiration date for making such an election would be December 31, 2001. Under the federal law, the election applies to both regular income tax and alternative minimum tax. Generally, the expenditure must be incurred in connection with abatement or control of hazardous substances at a qualified contamination site. A qualified contamination site must be: (a) held for use in a trade or business, for production of income or as inventory; (b) certified by a state agency as located in a targeted area; and (c) contain a hazardous substance.

The DOR estimates that the fiscal effect of adopting this change would be a loss of state revenues of $0.1 million in fiscal year 2001 and $0.3 million in fiscal year 2002.

*3. Split-Dollar Insurance Arrangements*

The federal changes to the IRC prohibit taxpayers from claiming charitable deductions for transfers associated with "split-dollar insurance arrangements." Generally, these arrangements involve transfers of money to a charity that are then used to pay premiums for life insurance on the life of the transferor or another individual. Exceptions are provided in the law for annuity contracts purchased by charities who fund charitable gift annuities and for charitable remainder trusts that hold life insurance, annuity or endowment contracts to pay annuity or uni-trust amounts. In these situations, the deduction allowed by federal law is limited to the value of the charity's interest.

The DOR indicates that the fiscal effect of this change would be a minimal revenue gain to the State of Wisconsin.

*4. Real Estate Investment Trusts*

Recent enactments of federal law made several changes to the IRC relating to the treatment of Real Estate Investment Trusts (REITs). One of the changes limits the deductible amount of interest paid or accrued by a taxable REIT subsidiary to its REIT parent so that a REIT subsidiary cannot deduct interest in any year that would exceed 50% of its adjusted gross income. This change would be effective for tax years beginning after December 31, 2001.

The DOR estimates that in conjunction with the other changes made to the REIT laws adopting the changes would result in state revenues of $0.2 million in fiscal year 2001 and $0.2 million in fiscal year 2002.

## Legality Involved

There are no questions of legality involved.

## Public Policy Involved

The provisions of the bill affecting tax exemptions are good public policy.