Wisconsin Department of Administration Division of Executive Budget and Finance DOA-2048 (R07/2000)

Fiscal Estimate - 2001 Session

Original Updated	Corrected	Supplemental			
LRB Number 01-3560/1	Introduction Number	AB-734			
Subject					
Exempt from taxation WHEDA interest income					
State: No State Fiscal Effect					
Indeterminate Increase Existing Appropriations Increase Existing Reve	ease Existing absorb withi				
Permissive Mandatory Permi 2. Decrease Costs 4. Decre Permissive Mandatory Permi	Units Affecter Issive Mandatory ease Revenue Units Affecter Towns Counties	Village Cities			
Fund Sources Affected Affected Ch. 20 Appropriations GPR FED PRO PRS SEG SEGS					
Agency/Prepared By	Authorized Signature Date				
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Fiscal Estimate Narratives DOR 1/29/02

LRB Number	01-3560/1	Introduction Number	AB-734	Estimate Type	Original	
Subject						
Exempt from taxation WHEDA interest income						

Assumptions Used in Arriving at Fiscal Estimate

The bill would provide an individual and corporate income tax exemption for interest on bonds and notes issued by the Wisconsin Housing and Economic Development Authority (WHEDA) for multifamily affordable housing and elderly housing projects.

The bill also repeals an exemption for bonds issued to fund a loan for the development of certain cultural and architectural landmarks. According to staff at WHEDA, no bonds have been issued under this exemption.

New Issues

WHEDA estimates that approximately \$21.4 million of bonds would be issued annually under this exemption at an average rate of 4.8%, that they would have an average life of 6 years, and that in-state investors currently hold approximately 5% of the bonds. Based on the experience of other states, WHEDA estimates that bonds held by state taxpayers would increase to 35% as a result of the state income tax exemption. The Department estimates the effective marginal tax rate for taxpayers with incomes over \$25,000 at 7.19%.

Assuming 5% of bonds held by Wisconsin taxpayers, the estimated annual fiscal effect for the first year of new issues would be \$3,700 (\$21.4 million x 4.8% x 5% x 7.19%), increasing to \$22,200 (\$3,700 x 6) in the sixth year. However, if the exemption increases investing by state residents to 35% as WHEDA expects, the fiscal effect of exempting the bond interest would be \$25,800 in the first year (\$21.4 million x 4.8% x 35% x 7.19%), increasing to \$155,100 (\$25,800 x 6) in the sixth year.

Outstanding Bonds

The bill also exempts interest from currently outstanding bonds. WHEDA estimates that outstanding bonds total \$401 million. Information is not available on the amount of outstanding bonds that might be held by Wisconsin taxpayers but WHEDA staff believe that institutional investors hold the majority of these bonds. Based on a simulation on the 1999 individual income tax sample and an assumption that 5% of the bonds are held by Wisconsin taxpayers, it is estimated that the fiscal effect of exempting the currently outstanding bonds is \$80,000 annually. If the percent of currently outstanding bonds held in state increases to 35%, the fiscal effect of exempting the outstanding issues would increase to \$560,000 annually.

Long-Range Fiscal Implications