



**Fiscal Estimate Narratives**  
**DOR 1/29/02**

LRB Number <b>01-3560/1</b>	Introduction Number <b>AB-734</b>	Estimate Type <b>Original</b>
<b>Subject</b> 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 ( $\$21.4 \text{ million} \times 4.8\% \times 5\% \times 7.19\%$ ), increasing to \$22,200 ( $\$3,700 \times 6$ ) 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 ( $\$21.4 \text{ million} \times 4.8\% \times 35\% \times 7.19\%$ ), increasing to \$155,100 ( $\$25,800 \times 6$ ) 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**