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

Fiscal Estimate - 2001 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **01-3844/1**	Introduction Number **AB-516**

Subject

Legislative Council Committee on Labor Shortage rcommendations

Fiscal Effect

State:

☐ No State Fiscal Effect
☐ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☐ Decrease Existing Revenues
- ☒ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☒ No
- ☐ Decrease Costs

Local:

☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
   ☐ Towns ☐ Village ☐ Cities
   ☐ Counties ☐ Others
   ☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 10/9/01

LRB Number **01-3844/1**	Introduction Number **AB-516**	Estimate Type **Original**
Subject		
Legislative Council Committee on Labor Shortage rcommendations		

Assumptions Used in Arriving at Fiscal Estimate

The bill would require the Department of Revenue, in cooperation with the Department of Workforce Development, to conduct a study and report on the findings of existing tax credits and deductions that offer incentives to employers for providing training and other benefits to employees. The bill would require that the report include information on other states' efforts to address tight labor supply conditions and recommendations for improving the state's tax laws designed to help attract, develop, and retain a highly skilled, highly trained workforce while maintaining a sound, stable tax base.

The bill would also create three nonrefundable income and franchise tax credits and amend the existing development zone credit for environmental remediation.

Education Credit

This bill would create a tax credit for certain businesses that pay tuition expenses at qualified postsecondary institutions for individuals enrolled in degree-granting programs. The credit would equal 50% of tuition expenses, increasing to 75% of tuition expenses if the taxable income of the individual is not more than 185% of the poverty line. Unused credit amounts could be carried forward for use in offsetting income tax in future years.

Corporations and insurers could claim the credit; partnerships, limited liability companies, and tax option companies would compute the credit and pass it on to partners, members and shareholders in proportion to their ownership interests.

Claimants could not claim the credit for tuition amounts for a family member or the family member of a managing employee unless the family member was employed by the claimant's business for an average of 20 hours a week during the previous year, the family member was in a degree granting program substantially related to the claimant's business and was making satisfactory progress towards completing the degree.

Qualified postsecondary institutions are the University of Wisconsin System institutions, technical college system institutions, any regionally accredited four-year nonprofit college or university having regional headquarters and principal place of business in Wisconsin or any school approved by the Veterans Educational Approval Board. Degree granting programs are defined to include any program for which an associate, bachelor's or graduate degree is awarded.

Based on information from the University of Wisconsin System, the Wisconsin Technical College System and the U.S. Office of Management and Budget, it is estimated that employers provide $28 million in tuition expenses for employees and other scholarships annually. Of this amount, an estimated $21 million would qualify the employer for a 50% credit and $7 million for a 75% credit. Based on Department data, approximately 75% of credits claimed in a tax year are actually used. Therefore, the estimated fiscal effect of this provision would be to reduce income tax revenues by $11.8 million annually ($21 million x 50% x 75%) + ($7 million x 75% x 75%).

Industrial, Service and Skilled Trades Apprenticeship Credit

The bill would create a tax credit for a business that pays wages to an apprentice participating in a 2 year to 5 year program in construction, industrial manufacturing or service occupations. The credit would equal 5% of wages paid to an apprentice, not to exceed $1,400 per year, but would increase to 8%, not to exceed $3,000, during the year the apprentice completes the program. The program must be approved by the Department of Workforce Development. The credit would first apply to taxable years beginning on January 1, 2002.

The bill would discontinue the credit for the wages of new apprentices in 2005 if the number of employers training apprentices in approved programs does not increase by more than 40% between January 1, 2002 and December 31, 2004. Employers could continue to claim the credit for wages of apprentices for whom the employer had already claimed the credit in a prior year until the apprentice completes the apprenticeship program.

To be eligible to claim the credit, each employer must enter into an agreement with the Department of Revenue allowing the Department to post on its internet site the employer's name, address and number of apprentices and journeymen employed in the calendar year.

According to information from DWD, approximately 12,000 persons currently are participating in apprenticeship programs in industrial manufacturing, construction or service sector occupations.

Based on information on the amount of the average wages for apprenticeship programs, the estimate assumes that employers would receive the maximum credit for apprentice wages. The table below provides an estimate of the amount of credit claims by length of apprenticeship program. The estimate assumes that apprentices would complete the programs as scheduled.

As shown in the attached table, it is estimated that annual credit claims would total $23.3 million. The Department estimates that approximately 75% of credits claimed in a year are used to offset tax liability. As such the fiscal effect is estimated at $17.4 million annually ($23.3 million x 75%).

Productivity Enhancement Training Credit

The bill would create a tax credit for certain training expenses of employers. The credit would equal 100% of an employer's certified training expenses, up to $7,500 per year. Eligible expenses must be certified by the Department of Commerce and may include up to $2,000 for pre-training assessment and consultation.

For certification, employers must submit to Commerce a productivity enhancement training plan designed to increase employee productivity and result in their holding jobs that require higher skill levels and wages than current jobs. The employer must receive pre-training needs assessment and consultation from an experienced provider of productivity assessments that is approved by Commerce. Employers must report to Commerce on their success in meeting the goals established in their productivity enhancement training plan. Commerce must report to the legislature on the effectiveness of the program and estimate the foregone revenues because of the credit.

The credit may not be claimed for amounts deducted under the IRC as ordinary and necessary business expenses. Corporations and insurers may claim the credit. Partnerships, limited liability companies and tax option corporations compute the credit and pass it on to their partners, members and shareholders in proportion to their ownership interests. Unused credits may be carried forward for 15 years to offset future tax liability.

Commerce must notify the Department of Revenue of all persons entitled to receive the credit. Credits may not be transferred. No business may be certified for credits after 2009.

Information is not available to estimate the fiscal effect of this provision. Based on Department data, it is estimated that 75% of credits claimed in a year are used in that year.

If 500 companies claimed the full amount, the annual fiscal effect would be $2.8 million (500 x $7,500 x 75%). If 2,500 companies claimed the full amount, the annual fiscal effect would be $14 million (2,500 x $7,500 x 75%).

Environmental Remediation Development Zone Credit Modifications

The bill would allow corporations that are eligible for the environmental remediation development zone credits to transfer the right to claim the credits to anyone subject to taxation. The bill also allows municipalities and non-profit organizations that are exempt from tax to transfer up to 50% of amounts paid for environmental remediation to taxpayers certified by Commerce to claim the development zone credit. The cap for development zone credits would remain unchanged. However, the amount of credits that could be claimed would be used to offset tax liability more quickly if credits can be sold to taxpayers with tax liability.

The Department estimates that one-time costs for computer programming to administer the bill would be $69,900, and annual on-going costs would be $20,800.

Long-Range Fiscal Implications

	Apprenticeship Counts			Credit Claim Amounts		
	Total	Completed	Not Completed	5% of Wages (C x $1,400)	8% of Wages (B x $3,000)	Total (D + E)
	(A)	(B)	(C)	(D)	(E)	(F)
Construction	**7,300**	**1,600**	**5,700**	**$ 7,980,000**	**$ 4,800,000**	**$ 12,780,000**
4 Year Program	4,100	1,000	3,100	4,340,000	3,000,000	7,340,000
5 Year Program	3,200	600	2,600	3,640,000	1,800,000	5,440,000
Industrial	**2,400**	**600**	**1,800**	**2,520,000**	**1,800,000**	**4,320,000**
4 Year Program	1,500	400	1,100	1,540,000	1,200,000	2,740,000
5 Year Program	900	200	700	980,000	600,000	1,580,000
Service	**2,800**	**1,400**	**1,400**	**1,960,000**	**4,200,000**	**6,160,000**
2 Year Program	2,800	1,400	1,400	1,960,000	4,200,000	6,160,000
4 Year Program	10	3	7	9,800	9,000	18,800
1 Year Program	110	NA	NA	NA	NA	NA
Totals	**12,500**	**3,600**	**8,900**	**$ 12,460,000**	**$ 10,800,000**	**$ 23,260,000**

Wisconsin Department of Administration
Division of Executive Budget and Finance
DOA-2047 (R07/2000)

Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

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Legislative Council Committee on Labor Shortage rcommendations

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

One-time costs for computer programming of $69,900.

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	
(FTE Position Changes)		
State Operations - Other Costs	20,800	
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	**$20,800**	**$**
B. State Costs by Source of Funds		
GPR	20,800	
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, ets.)

	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$20,800	$
NET CHANGE IN REVENUE	$	$

Agency/Prepared By	**Authorized Signature**	**Date**
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