

### Fiscal Estimate - 2001 Session

- Original       Updated       Corrected       Supplemental

**LRB Number** 01-2912/1      **Introduction Number** SB-147

**Subject**  
Education tax credit

**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      3.  Increase Revenue
  - Permissive  Mandatory       Permissive  Mandatory
  - 2.  Decrease Costs      4.  Decrease Revenue
  - Permissive  Mandatory       Permissive  Mandatory

5. Types of Local Government Units Affected

- Towns       Village       Cities
- Counties       Others
- School Districts       WTCS Districts

**Fund Sources Affected**      **Affected Ch. 20 Appropriations**

GPR     FED     PRO     PRS     SEG     SEGS 20.566 (1) (a)

| <b>Agency/Prepared By</b>          | <b>Authorized Signature</b>   | <b>Date</b> |
|------------------------------------|-------------------------------|-------------|
| DOR/ Pamela Walgren (608) 266-7817 | Dennis Collier (608) 266-5773 | 5/1/01      |

**Fiscal Estimate Narratives**

**DOR 5/1/01**

|                             |                                   |                               |
|-----------------------------|-----------------------------------|-------------------------------|
| LRB Number <b>01-2912/1</b> | Introduction Number <b>SB-147</b> | Estimate Type <b>Original</b> |
| <b>Subject</b>              |                                   |                               |
| Education tax credit        |                                   |                               |

**Assumptions Used in Arriving at Fiscal Estimate**

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

Corporations, sole proprietorships and insurers may claim the credit; partnerships, limited liability companies, and tax option companies compute the credit and pass it on to partners, members and shareholders in proportion to their ownership interests. Tuition of family members of managing employees qualifies for the credit only if the family member is employed by the claimant's business an average of at least 20 hours a week during the one-year period prior to commencing in the education program, is enrolled in a degree-granting program substantially related to the claimant's business and is making satisfactory progress towards the degree.

Qualified postsecondary institutions are the University of Wisconsin System institutions, technical college system institutions or any regionally accredited four-year nonprofit college or university having regional headquarters and principal place of business in Wisconsin. 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. Data are not available to estimate the percent of individual students in degree granting programs who have tuition paid by businesses. For purposes of this estimate, it is assumed that \$7 million of estimated tuition expenses would be for individuals with taxable income below 185% of the poverty line and \$21 million would be for individuals with taxable income above that limit. To the extent that actual incomes of these students are higher or lower, the fiscal effect of this credit would change from the estimate.

It is estimated that \$15.8 million of credits will be claimed annually. Of that total, approximately \$5.3 million is for tuition of individuals with taxable income below the poverty line (\$7 million x 75%) and \$10.5 million is for tuition of individuals with taxable income above the poverty line (\$21 million x 50%). Based on Department data, approximately 75% of credits claimed in a tax year are actually used. Therefore, it is estimated that the fiscal effect of this provision would be to reduce income tax revenues by \$11.9 million annually (\$15.8 million x 75%).

The Department estimates that 1.0 FTE would be required to administer the credit and increased annual costs would be \$52,400 for audit and other functions. There would also be one-time administrative costs of \$102,500 to implement the credit for programming functions. The bill does not provide funding for these costs.

**Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

|  |                 |  |                 |
|--|-----------------|--|-----------------|
| <b>LRB Number</b> 01-2912/1  |                 | <b>Introduction Number</b> SB-147              |                 |
| <b>Subject</b>   |                 |  |                 |
| Education tax credit   |                 |  |                 |
| <b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>                                |                 |  |                 |
| \$102,500  |                 |  |                 |
| <b>II. Annualized Costs:</b>   |                 | <b>Annualized Fiscal Impact on funds from:</b> |                 |
|  |                 | Increased Costs                                | Decreased Costs |
| <b>A. State Costs by Category</b>  |                 |  |                 |
| State Operations - Salaries and Fringes  | \$52,400        |  |                 |
| (FTE Position Changes)   |                 |  |                 |
| State Operations - Other Costs   |                 |  |                 |
| Local Assistance   |                 |  |                 |
| Aids to Individuals or Organizations   |                 |  |                 |
| <b>TOTAL State Costs by Category</b>   | <b>\$52,400</b> |  | <b>\$</b>       |
| <b>B. State Costs by Source of Funds</b>   |                 |  |                 |
| GPR  | 52,400          |  |                 |
| FED  |                 |  |                 |
| PRO/PRS  |                 |  |                 |
| SEG/SEG-S  |                 |  |                 |
| <b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)</b> |                 |  |                 |
|  | Increased Rev   | Decreased Rev                                  |                 |
| GPR Taxes  | \$              | \$-11,900,000                                  |                 |
| GPR Earned   |                 |  |                 |
| FED  |                 |  |                 |
| PRO/PRS  |                 |  |                 |
| SEG/SEG-S  |                 |  |                 |
| <b>TOTAL State Revenues</b>  | <b>\$</b>       | <b>\$-11,900,000</b>                           |                 |
| <b>NET ANNUALIZED FISCAL IMPACT</b>  |                 |  |                 |
|  | State           | Local  |                 |
| NET CHANGE IN COSTS  | \$52,400        | \$   |                 |
| NET CHANGE IN REVENUE  | \$-11,900,000   | \$   |                 |
| <b>Agency/Prepared By</b>  |                 | <b>Authorized Signature</b>                    | <b>Date</b>     |
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