

Fiscal Estimate - 2003 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 03-1860/1	Introduction Number SB-213
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Subject
 Tax deduction for compensation paid to an employee

Fiscal Effect

State:

<input type="checkbox"/> No State Fiscal Effect	<input checked="" type="checkbox"/> Indeterminate	<input type="checkbox"/> Increase Existing Appropriations	<input checked="" type="checkbox"/> Increase Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget
<input type="checkbox"/> Decrease Existing Appropriations	<input type="checkbox"/> Create New Appropriations	<input type="checkbox"/> Decrease Existing Revenues	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
			<input type="checkbox"/> Decrease Costs	

Local:

<input type="checkbox"/> No Local Government Costs	<input type="checkbox"/> Indeterminate	5. Types of Local Government Units Affected		
1. <input type="checkbox"/> Increase Costs	3. <input type="checkbox"/> Increase Revenue	<input type="checkbox"/> Towns	<input type="checkbox"/> Village	<input type="checkbox"/> Cities
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Counties	<input type="checkbox"/> Others	
2. <input type="checkbox"/> Decrease Costs	4. <input type="checkbox"/> Decrease Revenue	<input type="checkbox"/> School Districts	<input type="checkbox"/> WTCS Districts	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory			

Fund Sources Affected	Affected Ch. 20 Appropriations
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	

Agency/Prepared By DOR/ Pamela Walgren (608) 266-7817	Authorized Signature Yeang-Eng Braun (608) 266-2700	Date 7/23/2003
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Fiscal Estimate Narratives

DOR 7/23/2003

LRB Number	03-1860/1	Introduction Number	SB-213	Estimate Type	Original
Subject					
Tax deduction for compensation paid to an employee					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, a corporation may deduct compensation paid to employees and officers from its income subject to tax. The deduction for compensation paid to chief executive officers and four other highest compensated officers of publicly held corporations is limited to \$1,000,000. This limit includes any form of compensation, including benefits, but not including certain commissions or performance-based compensation approved by the board of directors.

This bill would limit the amount of the deduction for wages, salaries, commissions and bonuses paid to employees and officers to 25 times the salary of the lowest paid full-time employee.

The Department does not have data to estimate the fiscal effect of this proposal. However, this bill would increase state corporate income and franchise tax revenues because net income subject to tax would increase. It is believed that the fiscal effect could be in the tens of millions of dollars.

To illustrate the potential fiscal effect of the change, if the lowest paid full-time employee earned \$15,000 annually, the maximum corporate deduction for any employee or officer would be limited to \$375,000 (\$15,000 x 25), regardless of their actual wages and salaries. If the president of the same corporation earned \$800,000 per year, annual corporate franchise and income tax revenues would increase by \$33,575 (\$800,000 - \$375,000 x 7.9%) because of the increased income subject to tax. If only 100 employees were in this situation, tax revenues would increase by \$3.3 million annually.

Long-Range Fiscal Implications