Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 03-4048/1	Introduction Number SB-422

Subject

Deferal of recognition of gains from the sale of certain capital assets

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 2/13/2004

LRB Number **03-4048/1**	Introduction Number **SB-422**	Estimate Type **Original**
Subject Deferal of recognition of gains from the sale of certain capital assets		

Assumptions Used in Arriving at Fiscal Estimate

Under current Wisconsin law, individuals may exclude 60% of net long-term capital gains. Under this bill, an individual, an individual partner or member of a partnership, limited liability company, or limited liability partnership; or an individual shareholder of a tax-option corporation may elect to defer the payment of income taxes on the gain realized from the sale of any asset held more than one year, if the claimant completes a number of requirements. These requirements include: 1) immediate deposit of the gain in a segregated account in a financial institution; 2) purchase of another capital asset of equal or greater value using all of the proceeds in the account within 90 days after the sale of the asset that generated the gain; 3) after purchase of the replacement asset, immediate notification to the Department of Revenue that the claimant will not declare on the claimant's income tax return the gain because the claimant has reinvested the capital gain.

Gains realized from the sale of an asset that was obtained in a tax-free exchange of capital assets and the sale of property purchased as a result of an involuntary conversion do not qualify for the deferral under the bill.

The basis of the replacement asset would be calculated by subtracting the gain from the cost of the asset. If a claimant defers the payment of income taxes on a capital gain under this bill, the claimant may not use the gain to net capital gains and losses.

Data are not readily available on the number of tax filers that would take advantage of this deferral and therefore the fiscal effect of this bill is indeterminate. However, some data are available from the 2001 Individual Income Tax Sample. According to the sample, about 62% of currently excluded capital gains is claimed by filers with income over $100,000 and taxes paid by these filers on capital gains total $82 million.

Since these high-income filers have large enough disposable income to reinvest their long-term capital gains in other capital assets, payment of all or a substantial portion of the $82 million they pay in tax on capital gains under current law could be deferred indefinitely.

Long-Range Fiscal Implications

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Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

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

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		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	**$**	**$**
B. State Costs by Source of Funds		
GPR		
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	$	$
NET CHANGE IN REVENUE	$SeeText	$

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