

Fiscal Estimate - 2003 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 03-3414/1	Introduction Number SB-450
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Subject
 Single sales factor; creating new jobs

Fiscal Effect

State:

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

Local:

<input type="checkbox"/> No Local Government Costs		
<input type="checkbox"/> Indeterminate		
1. <input type="checkbox"/> Increase Costs	3. <input type="checkbox"/> Increase Revenue	5. Types of Local Government Units Affected
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
2. <input type="checkbox"/> Decrease Costs	4. <input type="checkbox"/> Decrease Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	

Towns Village Cities
 Counties Others
 School Districts WTCS Districts

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 Dennis Collier (608) 266-5773	Date 2/27/2004
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ANNUALIZED FISCAL EFFECT

CY	Act 37 Fiscal Effect		AB 450 Fiscal Effect			
	Sales Factor	Fiscal Effect	100% Revenue Effect		50% Revenue Effect	
			Reduced Tax Liability	Fiscal Effect	Reduced Tax Liability	Fiscal Effect
2004	50%	-	\$	(92,000,000)	\$	(46,000,000)
2005	50%	-		(92,000,000)		(46,000,000)
2006	60%	\$ (11,000,000)		(92,000,000)		(35,000,000)
2007	80%	(32,000,000)		(92,000,000)		(46,000,000)
2008	100%	(49,000,000)		(60,000,000)		(14,000,000)

FISCAL YEAR FISCAL EFFECT

FY	Act 37		100% Revenue Effect		50% Revenue Effect	
	Sales Factor	Fiscal Effect	Combined Fiscal Effect		Combined Fiscal Effect	
			AB 450	AB 450	AB 450	AB 450
2004		\$	(41,000,000)	\$	(21,000,000)	
2005		(92,000,000)	(92,000,000)	(46,000,000)	(46,000,000)	
2006	\$ (5,000,000)	(87,000,000)	(92,000,000)	(41,000,000)	(46,000,000)	
2007	(20,000,000)	(72,000,000)	(92,000,000)	(26,000,000)	(46,000,000)	
2008	(40,000,000)	(33,000,000)	(73,000,000)	(8,000,000)	(48,000,000)	
2009	(49,000,000)		(49,000,000)		(49,000,000)	

Fiscal Estimate Narratives
DOR 2/27/2004

LRB Number 03-3414/1	Introduction Number SB-450	Estimate Type Original
Subject Single sales factor; creating new jobs		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, most industries apportion income using a three-factor formula—the ratio of a corporation's in-state property, payroll and sales to its property, payroll and sales everywhere—to determine the portion of a multistate corporation's taxable income attributable to the state. The sales factor is double-weighted in the apportionment formula. Special apportionment formulas are required for certain industries.

As provided in 2003 Act 37, beginning in 2006, a formula based only on the sales factor will be phased in. The sales factor would be weighted at 60% for taxable years beginning in 2006, at 80% for taxable years beginning in 2007 and at 100% for taxable years beginning in 2008.

This bill would allow businesses to apportion income to the state using only the sales factor if the business were to have a net gain of 100 employees in the state in any taxable year.

Under Act 37, some businesses will have tax increases and some businesses will have tax decreases from the required use of single sales factor apportionment. The estimate for AB 450 assumes that only businesses with a tax decrease would voluntarily use that method of apportionment in advance of its Act 37 effective date.

Information is not available to determine how many businesses and which businesses would have a net of 100 employees in the state to estimate the change in tax liability under single sales factor apportionment. If every business that would have reduced tax liability from single sales factor apportionment were to use that method to apportion income, the annualized fiscal effect would be to reduce income and franchise tax revenues by \$92 million when the sales factor is weighted at 50%, \$81 million when the sales factor is weighted at 60%, \$60 million when the sales factor is weighted at 80%. However, it is unlikely that all corporations benefitting from single sales factor apportionment would choose, or would be able, to increase their employment by 100 jobs. The attached tables show the revenue loss, by calendar year and by fiscal year, if businesses representing 50% of the tax decrease were to use single sales factor and if all corporations did.

The Department anticipates one-time costs of \$21,000 for computer programming and program development. The bill does not provide funding for these costs.

Long-Range Fiscal Implications