

Fiscal Estimate Narratives
DOR 2/21/2003

LRB Number	03-0920/1	Introduction Number	AB-98	Estimate Type	Original
Subject					
Exempt from taxation WHEDA interest income					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, the Wisconsin Housing and Economic Development Authority (WHEDA) may issue bonds to finance an economic development loan to finance multifamily affordable housing projects or elderly housing projects. This bill would make interest on bonds issued for those purposes exempt from individual and corporate income tax.

Based on information from WHEDA, approximately \$37.5 million in bonds are issued each year (including refunding bonds). WHEDA estimates the current interest rate on the bonds at 5%. WHEDA estimates that Wisconsin residents hold approximately 5% of these bonds, but that the amount could increase to 35% if the bonds were exempt. This estimate assumes a constant level of newly issued bonds. Since most corporations are subject to the franchise tax, not the income tax, the estimate assumes a tax rate of 6.5%, the rate applicable to most individual income. Should the actual number of bonds issued annually or the interest rates of those bonds change, the actual fiscal effect would also change.

If 5% of the bonds continue to be held by state residents, the estimated fiscal effect of exempting the bond interest is to reduce individual income tax revenues by \$6,100 annually (\$37.5 million x 5% x 5% x 6.5%). This amount would increase each year if more bonds were issued. After five years of issues, the fiscal effect would be \$30,500.

If 35% of the bonds were held by state residents, the fiscal effect would be to reduce individual income tax revenues by \$42,700 annually (\$37.5 million x 5% x 35% x 6.5%). This amount would increase each year if more bonds were issued. After five years, the fiscal effect would be \$213,000.

Long-Range Fiscal Implications