STATE OF WISCONSIN

REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS

2003 ASSEMBLY BILL 98

[Introduced by Representatives Wieckert, Musser, Ainsworth, Owens, Olsen, Bies, McCormick, Hines, Van Roy, Ladwig, Morris, Loeffelholz, Jensen, Stone, and Vrakas; cosponsored by Senators Stepp, Welch, And Roessler.]

General Nature of Proposal

Generally, under current law, certain bonds or notes issued by the Wisconsin Housing and Economic Development Authority (WHEDA) to fund certain projects are exempt from state income taxation. Exempt bonds or notes include those to fund an economic development loan to finance the construction, renovation, or development of certain professional sports and entertainment home stadiums that are exempt from the property tax or to fund a loan for the development of certain cultural and architectural landmarks.

Assembly Bill 98 creates an individual and corporate income tax exemption for interest on bonds or notes issued by WHEDA, on or after the effective date of the bill, for purposes related to multi-family affordable housing projects or elderly housing projects. In addition, the bill repeals the exemption for bonds issued to fund a loan for the development of certain cultural and architectural landmarks.

Legality Involved

There are no questions of legality involved.

Fiscal Effect Upon the State and Its Subdivisions

The Department of Revenue estimates the fiscal effect of the bill as follows:

> 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.
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> 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.

Public Policy Involved

The bill is good public policy.