

STATE OF WISCONSIN
REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS

2003 ASSEMBLY BILL 205

[Introduced by Representatives Wieckert, Plale, Jeskewitz, Hahn, Van Roy, Krawczyk, Hines, Ladwig, Ainsworth, Owens, Stone, Ott, Townsend, Bies and Vrakas; cosponsored by Senators Schultz, Stepp, Wirch and Roessler.]

General Nature of Proposal

Under current law, the Wisconsin Health and Educational Facilities Authority (WHEFA) is authorized to issue bonds to finance a project undertaken by an educational institution for an educational facility. Under current law, an "educational institution" is defined to mean a corporation, agency, or association that is authorized by state law to provide or operate an educational facility. An "educational facility," under current law, is defined as a private, nonprofit, regionally accredited, postsecondary educational institution. Under current law, interest on bonds issued by WHEFA under this authority is exempt from federal tax but is taxable at the state level.

The bill expands the definition of "educational institution" to include the Wisconsin Association of Independent Colleges and Universities, and expands the definition of "educational facilities" to include an institution, place, building, or other structure used by the Wisconsin Association of Independent Colleges and Universities solely for providing one or more supporting services to one or more educational institutions. In addition, the bill creates a state individual and corporate income tax exemption for bonds issued by WHEFA on or after the effective date of the bill to finance any project undertaken for an educational facility.

The tax exemption provided by the bill would first apply to tax years beginning on January 1, 2004, unless the bill is enacted after July 31, in which case the exemption would first apply to taxable years beginning on January 1, 2005.

Legality Involved

There are no questions of legality involved.

Fiscal Effect Upon the State and Its Subdivisions

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

Staff at the Wisconsin Association of Independent Colleges and Universities has indicated that the organization is considering offering centralized functions to obtain economies of scale for member institutions for functions such as purchasing, financial aid and payroll processing. Such an effort may require additional facilities. At present, construction is not planned and estimates are not available for costs or dates.

Based on information from WHEFA, approximately \$40 million in bonds are issued each year (including refunding bonds). WHEFA estimates the current interest rate on the bonds at 5%. WHEFA estimates that Wisconsin residents hold approximately 25% of these bonds, but that the amount could increase to 50% 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 25% 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 \$32,500 annually ($\$40 \text{ million} \times 5\% \times 25\% \times 6.5\%$). This amount would increase each year if more bonds were issued and remained outstanding. After five years of issuances, the fiscal effect would be \$162,500.

If 50% of the bonds were held by state residents, the fiscal effect would be to reduce individual income tax revenues by \$65,000 annually ($\$40 \text{ million} \times 5\% \times 50\% \times 6.5\%$). This amount would increase each year if more bonds were issued and remained outstanding. After five years of issuances, the fiscal effect would be \$325,000.

Public Policy Involved

The bill is good public policy.

3/03/04

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