

Fiscal Estimate - 2003 Session

Original
 Updated
 Corrected
 Supplemental

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| LRB Number 03-2729/1 | Introduction Number AB-391 |
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Subject
 Eliminate corporate deduction of payments to related entities

Fiscal Effect

State:

No State Fiscal Effect
 Indeterminate

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

Local:

No Local Government Costs
 Indeterminate

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|--|--|---|
| 1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts |
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| | |
|---|---------------------------------------|
| 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 | |

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| Agency/Prepared By DOR/ Pamela Walgren (608) 266-7817 | Authorized Signature Dennis Collier (608) 266-5773 | Date 6/24/2003 |
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Fiscal Estimate Narratives

DOR 6/24/2003

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|---|------------------|---------------------|---------------|---------------|-----------------|
| LRB Number | 03-2729/1 | Introduction Number | AB-391 | Estimate Type | Original |
| Subject | | | | | |
| Eliminate corporate deduction of payments to related entities | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

For purposes of calculating a taxpayer's state franchise or income tax, the bill would require taxpayers to add to taxable income any amount the taxpayer deducted or excluded under the Internal Revenue Code for management and service fees, interest expenses and costs, intangible expenses and costs, and any other expenses and costs between related parties.

Data are not available to estimate the fiscal effect of disallowing these deductions. This is because the data do not distinguish between those deductions that are between related parties and those that are between unrelated parties. The Department of Revenue believes the fiscal effect would be substantial.

As illustration, based on the combined reporting sample compiled by the Department, if 10% of deductions appearing on the federal income tax return under "rent," "interest" and "other deductions" were assumed to be payments to related parties and therefore disallowed as a result of this bill, corporate tax revenues would increase by an estimated \$50 million annually. If 50% of those deductions were assumed to be disallowed, corporate tax revenue would increase by an estimated \$260 million annually. Other types of deductions not included in these estimates would also be disallowed as a result of this bill. These estimates should be considered speculative

Long-Range Fiscal Implications