Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

[X] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number **03-3840/2**	Introduction Number **AB-781**

Subject

Depreciation provisions of IRC related to farming activities

Fiscal Effect

State:
- [ ] No State Fiscal Effect
- [X] Indeterminate
  - [ ] Increase Existing Appropriations
  - [ ] Decrease Existing Appropriations
  - [ ] Create New Appropriations
  - [ ] Increase Existing Revenues
  - [X] Decrease Existing Revenues
  - [X] Increase Costs - May be possible to absorb within agency's budget
    - [X] Yes [ ] No
  - [ ] Decrease Costs

Local:
- [ ] No Local Government Costs
- [ ] Indeterminate
  1. [ ] Increase Costs
     - [ ] Permissive [ ] Mandatory
  2. [ ] Decrease Costs
     - [ ] Permissive [ ] Mandatory
  3. [ ] Increase Revenue
     - [ ] Permissive [ ] Mandatory
  4. [ ] Decrease Revenue
     - [ ] Permissive [ ] Mandatory
  5. Types of Local Government Units Affected
     - [ ] Towns [ ] Village [ ] Cities
     - [ ] Counties [ ] Others
     - [ ] School Districts [ ] WTCS Districts

Fund Sources Affected

[X] GPR [ ] FED [ ] PRO [ ] PRS [ ] SEG [ ] SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
DOR/ Pamela Walgren (608) 266-7817	Dennis Collier (608) 266-5773	2/9/2004

Fiscal Estimate Narratives

DOR 2/9/2004

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Depreciation provisions of IRC related to farming activities		

Assumptions Used in Arriving at Fiscal Estimate

Wisconsin has not adopted federal bonus depreciation rules and increases in expensing of investments under section 179 of the Internal Revenue Code (IRC), as provided in the Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. This bill would adopt these depreciation and expensing rules for farmers only.

Under the bill, farmers could claim an additional first-year bonus depreciation deduction equal to 30% for qualifying property acquired after September 10, 2001 and before May 6, 2003, and placed in service before January 1, 2005, and could claim an additional 50% bonus depreciation deduction for property placed in service after May 5, 2003 and before January 1, 2005. Also, the amount of IRC sec. 179 expensing deduction is increased from $25,000 to $100,000. Under IRC sec. 179, the cost of certain business assets purchased during the year, subject to specific limitations, may be deducted rather than depreciated.

Fiscal Estimate

The fiscal estimate assumes that the additional depreciation deductions would apply to the same periods as under federal law. The simple example in the attachment shows the difference in depreciation deductions under current law and under the 50% bonus depreciation using a 10-year straight-line depreciation method on a $10,000 asset. Farmers may use other methods of depreciation. As shown in the table, under current law, the farmer would take a $1,000 deduction in each of the ten years of the class life of the property. Under the 50% bonus depreciation method, the farmer would take a $5,000 bonus deduction in the first year and a $500 straight-line deduction on the remaining basis of the property, reducing his or her taxable income by $4,500. The farmer would take a $500 deduction for the remaining nine years of the depreciation period, increasing his or her taxable income in these years by $500.

Based on information from the individual, corporate and partnership samples, the Department estimates that the 30% and 50% bonus depreciation provisions would result in a one-time revenue loss of $28 million in FY05 and FY06. Because a large amount of the basis of the property would be depreciated in the first year, depreciation deductions would be less in later years, producing a revenue gain until the property is fully depreciated. The amount of additional revenue in later years would vary based on the depreciation method used and the class life of the property. Additional revenue in the first year after the bonus depreciation deduction would be $2.5 million and would decrease each year until all property subject to the bonus deduction was fully depreciated. The amount of additional revenue would be less in later years.

Returns did not contain sufficient information to estimate the increase in the amount of the IRC sec. 179 expensing deduction.

Long-Range Fiscal Implications

	Current Law Depreciation	50% Bonus Depreciation	Difference
Year 1	$1,000	$5,500	($4,500)
Year 2	1,000	500	500
Year 3	1,000	500	500
Year 4	1,000	500	500
Year 5	1,000	500	500
Year 6	1,000	500	500
Year 7	1,000	500	500
Year 8	1,000	500	500
Year 9	1,000	500	500
Year 10	1,000	500	500
	$10,000	$10,000	