

Fiscal Estimate - 2003 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 03-3979/1	Introduction Number AB-824
------------------------------------	--

Subject
 Require charitable organizations to contribute to veterans groups or lose state tax-exempt status

Fiscal Effect

State:

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

Agency/Prepared By	Authorized Signature	Date
DOR/ Pamela Walgren (608) 266-7817	Dennis Collier (608) 266-5773	3/8/2004

Fiscal Estimate Narratives

DOR 3/8/2004

LRB Number	03-3979/1	Introduction Number	AB-824	Estimate Type	Original
Subject					
Require charitable organizations to contribute to veterans groups or lose state tax-exempt status					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, the income of nonprofit charitable organizations exempt under section 501 (c)(3) of the Internal Revenue Code is exempt from state income and franchise taxes. Under the bill, the gross income of 501 (c)(3) organizations is subject to state income and franchise taxes if the organization does not contribute at least 1% of its income in the taxable year to veterans groups.

Organizations that are exempt under IRC section 501 (c)(3) are those whose primary purposes are religious, charitable, scientific, literary, or educational, or that foster international amateur sports competition, prevent cruelty to children or animals or test for public safety. Examples of 501 (c)(3) organizations include nonprofit hospitals, educational institutions, churches, youth organizations, public charities, historical societies and environmental preservation groups. These organizations may not contribute net earnings to a private shareholder or individual, participate in activities that influence legislation, or participate in a political campaign on behalf of, or in opposition to, any candidate. Generally, contributions to the organization are deductible to the donor.

Based on information from the Statistics of Income, published by the Internal Revenue Service, 676,873 active nonprofit charitable organizations were recognized by the IRS under IRC sec. 501 (c)(3). Of those organizations, 230,159 filed informational returns in 2000, the most recent year for which information is available. Those not required to file included churches and certain organizations with annual gross receipts of less than \$25,000. The 230,159 organizations reported gross revenue of \$864 billion. According to the 2002 U.S. Statistical Abstract, religious organizations received contributions of \$81 billion in 2001. Thus, total gross revenue of these organizations is \$945 billion. Based on population, if it is assumed that 1.9% of this revenue is attributable to Wisconsin, IRC sec. 501 (c)(3) organizations would have to contribute nearly \$180 million annually to veterans' groups to avoid being subject to state income tax (\$945 billion x 1.9% x 1%). If these groups did not contribute 1% to veterans' groups, they would be subject to state income and franchise tax that could amount to more than \$1.4 billion annually (\$945 billion x 1.9% x 7.9%).

Organizations also exempt under IRC sec. 501 (c) but whose income would not be subject to tax under this bill, regardless of whether or not they contributed 1% of their gross income to veterans' groups include: civic leagues, social welfare organizations and local associations of employees, labor, agricultural and horticultural organizations, business leagues, chambers of commerce, social and recreational clubs, fraternal beneficiary societies and voluntary employee beneficiary associations.

The Department anticipates significant costs to administer the bill. The bill would impose a filing requirement on IRC sec. 501 (c)(3) entities that currently do not file returns, which would involve significant programming and development costs as well as audit and processing costs. The Department estimates one-time costs of \$114,400 and annual ongoing costs of \$200,000. The proposed legislation makes no provision for the funding of these costs.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 03-3979/1		Introduction Number AB-824	
Subject			
Require charitable organizations to contribute to veterans groups or lose state tax-exempt status			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
The Department anticipates \$114,400 in one-time costs for programming and development.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$157,900	
(FTE Position Changes)		(2.5 FTE)	
State Operations - Other Costs		42,300	
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$200,200	\$
B. State Costs by Source of Funds			
GPR		200,200	
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$200,200	\$
NET CHANGE IN REVENUE		\$SeeText	\$
Agency/Prepared By		Authorized Signature	Date
DOR/ Pamela Walgren (608) 266-7817		Dennis Collier (608) 266-5773	3/8/2004