

Fiscal Estimate - 2003 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 03-3253/1	Introduction Number SB-268
Subject Education tax credit for businesses	
Fiscal Effect State: <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs	
Local: <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue 5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities 2. <input type="checkbox"/> Decrease Costs 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> School Districts <input type="checkbox"/> 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 DOR/ Pamela Walgren (608) 266-7817	Authorized Signature Dennis Collier (608) 266-5773
Date 10/27/2003	

Fiscal Estimate Narratives

DOR 10/27/2003

LRB Number	03-3253/1	Introduction Number	SB-268	Estimate Type	Original
Subject					
Education tax credit for businesses					

Assumptions Used in Arriving at Fiscal Estimate

This bill would create a nonrefundable income and franchise tax credit for certain businesses that pay tuition expenses at qualified postsecondary institutions for individuals enrolled in degree-granting programs. The credit would be for 50% of tuition expenses, but would increase to 75% of tuition expenses if the individual's taxable income was not more than 185% of federal poverty line. Unused credit amounts could be carried forward for use in offsetting income tax in future years.

Corporations, insurers and sole proprietors could claim the credit; partnerships, limited liability companies, and tax option companies would compute the credit and pass it on to partners, members and shareholders in proportion to their ownership interests.

Qualified postsecondary institutions are the University of Wisconsin System institutions, technical college system institutions, any regionally accredited four-year nonprofit college or university having regional headquarters and principal place of business in Wisconsin, or a school approved by the veterans educational approval board if the school has a physical presence and delivery of education in the state. Degree granting programs are defined to include any program for which an associate, bachelor's or graduate degree is awarded.

A credit could not be claimed for any tuition amounts excluded from income under the Wisconsin tuition expense deduction or the federal employer educational assistance exclusion.

The bill would also require the department to annually submit a report to the legislature identifying each postsecondary institution that has received tuition payments and the amount of the tuition for each institution claimed as a credit.

Based on information from the University of Wisconsin System, the Wisconsin Technical College System and the U.S. Office of Management and Budget, it is estimated that employers currently provide \$43 million in tuition expenses for employees and other scholarships annually. Of this amount, an estimated \$32 million would be subject to the 50% credit and \$11 million would be subject to the 75% credit. This would result in credit claims of approximately \$24 million annually ($\$11 \text{ million} \times 75\%$) + ($\$32 \text{ million} \times 50\%$). Based on Department data, approximately 75% of credits claimed in a tax year are actually used. Therefore, it is estimated that the fiscal effect would be to reduce income tax revenues by \$18 million annually ($\$24 \text{ million} \times 75\%$).

However, the bill could substantially increase the amount of employer provided tuition expenses. Any business owner could pay for the tuition expenses of his or her children or the children of employees and receive credit. In this situation, the credit would likely be for 75% of tuition expenses because most traditional college students do not generally make more than 185% of the federal poverty threshold.

For example, a person could form a pass-through company to sell items from the home and contribute capital to the business. The company could pay for the tuition expenses of the owner's child and take a credit for tuition paid. The credit would flow through to the individual owner and offset the income of that owner and the owner's spouse. Since the tuition is for a traditional college student who works only a few hours per week at a low-wage job, the credit would offset 75% of tuition expenses paid by the student's parent.

The Department estimates that one-time computer programming development costs would be \$48,100 and ongoing computer support and data capture costs would be \$51,100. The bill does not provide funding for these costs.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

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Subject			
Education tax credit for businesses			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
One-time costs for computer programmin development costs of \$48,100.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$51,100	
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$51,100	\$
B. State Costs by Source of Funds			
	GPR	51,100	
	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, ets.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$-18,000,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$-18,000,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
	NET CHANGE IN COSTS	\$51,100	\$
	NET CHANGE IN REVENUE	\$-18,000,000	\$
Agency/Prepared By		Authorized Signature	Date
DOR/ Pamela Walgren (608) 266-7817		Dennis Collier (608) 266-5773	10/27/2003