State of Wisconsin

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STEPHEN R. MILLER
CHIEF

February 3, 2005

MEMORANDUM

To: Representative Towns

From: Joseph T. Kreye, Legislative Attorney, (608) 266–2263

Subject: Technical Memorandum to **2005 AB–21** (LRB 05–0680/1)

We received the attached technical memorandum relating to your bill. This copy is for your information and your file. If you wish to discuss this memorandum or the necessity of revising your bill or preparing an amendment, please contact me.

MEMORANDUM

February 2, 2005

TO: Joseph Kreye
Legislative Reference Bureau

FROM: Rebecca Boldt
Department of Revenue

SUBJECT: Technical Memorandum on AB 21: Computing Expense Deductions for Amortization and Depreciation on Property Used in Farming

To avoid the potential for conflicting language regarding the definition of "Internal Revenue Code," the department would prefer that language adopting sec. 202 of P.L. 108-27 be located in secs. 71.05(6)(b), 71.26(2)(b)16, 71.26(3), 71.34(1) and 71.45 (2)(a), Wis. Stats., rather than in sec. 71.765.

The bill provides that the expensing deduction in P.L. 108-27 applies for Wisconsin purposes at the same time as for federal purposes. For federal purposes, it applies for taxable years beginning after December 31, 2002, and before 2006. This appears to conflict with the initial applicability language that provides that the deduction first applies to taxable years beginning on January 1, 2005.

If you have any questions regarding this technical memorandum, please contact Pam Walgren at 266-7817.

cc: Representative Debi Towns

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2005 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **05-0680/1**	Introduction Number **AB-21**

Subject

Computing expense deductions and amortization and depreciation on property used in farming

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

☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
DOR/ Pamela Walgren (608) 266-7817	Rebecca Boldt (608) 266-6785	2/3/2005

Fiscal Estimate Narratives

DOR 2/3/2005

LRB Number **05-0680/1**	Introduction Number **AB-21**	Estimate Type **Original**
Subject		
Computing expense deductions and amortization and depreciation on property used in farming		

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 maximum IRC sec. 179 expensing deduction would increase 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 compared to current law. 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 per year.

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 $25 million. 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	

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **05-0680/1**	Introduction Number **AB-21**

Subject

Computing expense deductions and amortization and depreciation on property used in farming

I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

The department estimates a one-time revenue decrease of $25 million from increasing the depreciation deduction as provided in the bill for tax years 2001 through 2004.

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	$	$
B. State Costs by Source of Funds		
GPR		
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	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	$	$

NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$	$

Agency/Prepared By	**Authorized Signature**	**Date**
DOR/ Pamela Walgren (608) 266-7817	Rebecca Boldt (608) 266-6785	2/3/2005