



## Fiscal Estimate Narratives

DOR 10/4/2005

LRB Number	05-3310/1	Introduction Number	AB-641	Estimate Type	Original
<b>Subject</b>					
Individual and corporate tax credit for certain WHEFA bonds re: educational facility					

### Assumptions Used in Arriving at Fiscal Estimate

The bill would create an income and franchise tax credit for the amount of state individual income tax and corporate income and franchise taxes paid on the interest earnings of bonds issued by the Wisconsin Health and Educational Facilities Authority (WHEFA) to finance any project undertaken by an educational institution for an educational facility.

Based on information from WHEFA, it is assumed that \$52.5 million of bonds would be issued annually, \$40 million to Wisconsin taxpayers at an average interest rate of 5%. The estimate assumes an individual marginal tax rate of 5.5% and assumes that half of the bonds would be held by individuals and the remaining half by corporations. The corporate tax rate is 7.9%. Based on these assumptions, the credit would reduce individual income tax revenues by an estimated \$55,000 annually (\$20 million x 5% x 5.5%) and reduce corporate revenues by an estimated \$79,000 annually (\$20 million x 5% x 7.9%), for a total revenue loss of \$134,000 in the first year.

The fiscal effect would increase each year as new bonds were issued. WHEFA estimates that the average life of a bond is ten years. At this point, it is assumed that the issuance of new bonds would be matched by the retirement of old bonds through repayment and refinancing, and equilibrium would be achieved. The fiscal effect after ten years would be an estimated revenue loss of \$1,340,000, including individual and corporate revenue effects.

If all of the bonds were held by Wisconsin taxpayers, the estimated revenue loss would be \$176,000 in the first year, including corporate and individual taxpayers, and would be \$1,760,000 in the tenth year.

Under current federal law, U.S. government obligations are exempt from all state and local taxes except nondiscriminatory franchise taxes. If it were determined that as a result of this bill, that Wisconsin's franchise tax was discriminatory for exempting WHEFA obligations from tax, but not U.S. obligations, the franchise tax could be invalidated. This would substantially increase the fiscal effect of the bill.

### Long-Range Fiscal Implications