

Fiscal Estimate Narratives

DFI 2/7/2006

LRB Number	05-3753/2	Introduction Number	SB-566	Estimate Type	Original
Description Creating income and franchise tax credits for the offering of a Wisconsin business; excluding from taxable income gains from a Wisconsin business; liability of shareholders; and exemptions from securities registration requirements					

Assumptions Used in Arriving at Fiscal Estimate

A person may not offer or sell a security in the State, unless the security is registered with the Department and a fee is paid, or if the security or transaction is exempt from such registration. This bill expands exemptions from security registration requirements currently in Securities Law.

Revenue

The bill increases the limit on the number of offerees under the exemption from 25 to 300. Because this exemption can be used both by Wisconsin issuers as well as out-of-state issuers, and because of the substantially increased number of offerees permitted, together with the ability to use general advertising, it is expected that many of the multi-state public offerings of securities that currently would have to be registered by Coordination instead would use the exemption, which does not require any registration fee, only a nominal advertising filing fee. Also, for the same reasons, many Wisconsin-based issuers that currently would have to file for Registration by Qualification instead would use an exemption. Consequently, revenue received from these registrations will be reduced. Based on FY 2004-05 figures, the Department anticipates revenue reduction associated with these filings of \$60,750 (81 registrations at \$750).

Separately, because of the substantial increase in the number of offerees permitted under the bill to 300 persons, it is expected that the number of Regulation D/Rule 506 federally covered security notice filings will be significantly reduced because issuers will be able to use an exemption. The Department anticipates revenue reduction of approximately \$128,000 (640 filings at \$200).

Total revenue reduction from the changes to the exemptions is an estimated \$188,750.

The Division's advertising filing fee revenue will increase as result of the advertising filing requirement under the exemptions. However, because of the nominal current advertising filing fee (\$5 per item), and because it is not possible to predict the total number of issuers that would be making such advertising filings, it is not possible to estimate such increased advertising fee revenue with accuracy at this time.

Expenditures

This bill increases the number of permitted security holders and offerees in two registration exemptions, eliminates advertising approvals, and permits activity by unlicensed finders. Currently, a significant percentage of the Department's complaint and enforcement activity is associated with unlicensed activity, as well as securities registration and registration exemption violations, together with anti-fraud violations. The Department anticipates that the changes included in this bill will significantly increase both complaints to the Division and resulting investigations and enforcement actions. Because these are new reductions in regulation, an exact estimate of the increased enforcement activity is not known at this time. However, based on our caseload experience to date, it is estimated that to respond to complaints and to conduct enforcement actions, additional resources will be required. Assuming two additional enforcement positions at \$73,100 each (\$25/hour x 2088 = \$52,200 + 40% fringe benefits), estimated total costs equal \$146,200.

Long-Range Fiscal Implications