

Fiscal Estimate - 2005 Session

☒ Original
 ☐ Updated
 ☐ Corrected
 ☐ Supplemental

LRB Number 05-3753/2	Introduction Number SB-566
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	
Fiscal Effect State: <div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <input type="checkbox"/> No State Fiscal Effect <input checked="" type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations </div> <div style="width: 30%;"> <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues </div> <div style="width: 35%;"> <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs </div> </div> Local: <div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory </div> <div style="width: 30%;"> 3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory </div> <div style="width: 35%;"> 5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts </div> </div>	
<div style="display: flex; justify-content: space-between;"> <div> Fund Sources Affected <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 </div> <div> Affected Ch. 20 Appropriations </div> </div>	
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Date 2/17/2006	

Fiscal Estimate Narratives

DOR 2/17/2006

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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

The bill would create two credits: a credit for broker-dealer offerings of a Wisconsin business and a long term capital gains credit for investments in Wisconsin businesses. Both credits are nonrefundable.

For both credits, a Wisconsin business is defined as a business that:

- Has its headquarters in the state.
- Has less than 500 employees, with at least 51% of them employed in Wisconsin.
- Has been in business for not more than 7 consecutive years.
- Is engaged in, or has committed to engage in, manufacturing, agriculture, processing or assembling products, conducting research and development, or developing new products for business process.
- Is not engaged in real estate development, insurance, banking, lending, lobbying, political consulting, wholesale or retail trade, leisure, hospitality, transportation, construction or professional services provided by attorneys, business consultants, accountants, physicians, or health care consultants.

Wisconsin Business Offerings Credit

The bill would create a nonrefundable credit for 10% of the first \$500,000 raised in a broker-dealer offering of a Wisconsin business. The bill states that the maximum amount of credit claims could not exceed \$3 million in a taxable year. Unused amounts could be carried forward for 15 years for use in offsetting future tax liability.

Data is not available to estimate the fiscal effect of this credit. The department believes that the credit would reduce state revenues by at least \$3 million, the annual cap provided in the bill. However, the bill does not contain criteria for the department to use in denying some credit claims, while approving others. As such, the fiscal effect could be significantly higher.

Capital Gains Credit

Under current law, Wisconsin excludes 60% of net long-term capital gains realized from the sale or exchange of assets held for at least one year. This bill would provide a nonrefundable credit for individuals or individual owners of partnerships, limited liability companies, limited liability partnerships or S-corporations for the remaining 40% of gains if the gains are immediately placed in a segregated account with a financial institution and all of the gains are reinvested within 180 days in a qualifying Wisconsin business, as defined in the bill. The credit would equal the remaining 40% of net long-term capital gains that are subject to tax times the claimant's marginal tax rate.

According to a simulation using the 2003 Wisconsin Individual Income Tax Sample, if all net long-term capital gains were subject to the credit, individual income tax revenues would be reduced by \$97 million in tax year 2003. Adjusting for expected capital gains realizations between 2003 and 2005, the capital gains credit would reduce tax revenues by \$139 million in 2005.

Information on the amount of gains that would be reinvested in qualifying Wisconsin businesses is not available. If 1% of gains were reinvested in qualifying Wisconsin businesses, tax revenues would be reduced by an estimated \$1.39 million per year. If 10% of the gains were reinvested, the bill would reduce tax revenues by \$13.9 million per year. If 25% were reinvested, tax revenues would be reduced by \$34.75 million per year.

Long-Range Fiscal Implications