

### Fiscal Estimate - 2007 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>07-0703/1</b>	<b>Introduction Number</b> <b>AB-0065</b>
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**Description**  
 Creating a nonrefundable individual and corporate income tax credit based on interest received from bonds or notes issued by the Wisconsin Health and Educational Facilities Authority for purposes related to an educational facility and authorizing the Wisconsin Health and Educational Facilities Authority to issue bonds to finance a project undertaken by the Wisconsin Association of Independent Colleges and Universities related to an educational facility

**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**      **Affected Ch. 20 Appropriations**

- GPR   
  FED   
  PRO   
  PRS   
  SEG   
  SEGS

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**Fiscal Estimate Narratives**  
**DOR 2/12/2007**

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**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 for educational projects, \$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 by FY 2017, including individual and corporate revenue effects.

The bill requires a taxpayer to include both the interest and the credit in income. While this provision creates an intractable tax computation, this fiscal note assumes a technical correction to achieve administrative feasibility. The additional tax liability due to the credit addition is estimated to be \$92,660 by FY 2017 [(\$550,000 x 5.5%) + (\$790,000 x 7.9%)]. Thus the total revenue loss under the bill is estimated to be \$1,247,340 by FY 2017 (\$1,340,000 - \$92,660).

If all of the bonds were held by Wisconsin taxpayers, the estimated revenue loss would be higher.

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**

## Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

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<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes		\$	\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
<b>TOTAL State Costs by Category</b>		<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
<b>TOTAL State Revenues</b>		<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$See text of fiscal note	\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
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