

Fiscal Estimate - 2007 Session

Original
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 Corrected
 Supplemental

LRB Number 07-1827/1	Introduction Number SB-045
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Description
 Relating to: income and franchise tax credits for information technology equipment used to maintain medical records in electronic form and for interest on bonds or notes issued by the Wisconsin Health and Educational Facilities Authority for purposes related to the purchase of information technology equipment by health facilities, and granting rule-making authority

Fiscal Effect

State:

<input type="checkbox"/> No State Fiscal Effect	<input type="checkbox"/> Increase Existing Revenues	<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
<input type="checkbox"/> Indeterminate	<input checked="" type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Increase Existing Appropriations	<input type="checkbox"/> Decrease Existing Appropriations	
<input type="checkbox"/> Decrease Existing Appropriations	<input type="checkbox"/> Create New Appropriations	

Local:

<input checked="" type="checkbox"/> No Local Government Costs	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
<input type="checkbox"/> Indeterminate	
1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	

Fund Sources Affected	Affected Ch. 20 Appropriations
<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	

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Fiscal Estimate Narratives

DOR 3/6/2007

LRB Number	07-1827/1	Introduction Number	SB-045	Estimate Type	Original
Description Relating to: income and franchise tax credits for information technology equipment used to maintain medical records in electronic form and for interest on bonds or notes issued by the Wisconsin Health and Educational Facilities Authority for purposes related to the purchase of information technology equipment by health facilities, and granting rule-making authority					

Assumptions Used in Arriving at Fiscal Estimate

This bill creates income and franchise tax credits for the purchase of certain information technology equipment by health care providers and health facilities. Under the bill, a health care provider may claim a credit equal to 50% of the amount the provider paid in the taxable year for information technology hardware or software that is used to maintain medical records in electronic form. The annual credit amount is capped at \$10 million. The Department of Commerce would certify providers and facilities for the credit, and would allocate the annual amount to the eligible providers.

Also, under the bill a person may claim a credit equal to 6.5% for individuals and 7.9% for corporate claimants, of the interest received on bonds and notes issued by the Wisconsin Health and Educational Facilities Authority, on or after the effective date of the bill, if the proceeds of the bond or note are used by a health facility to purchase information technology hardware or software.

The bill would first apply to taxable years beginning on or after January 1, 2008.

Fiscal Effect

Credit for IT Purchases - The Department estimates that the provision providing a credit for IT purchases in the bill would reduce state revenue by \$10 million annually, the amount of the annual cap stated in the bill. The fiscal effect would be reduced to the extent that health care providers or facilities that claim the credit did not have sufficient tax liability to use all of the credit in the year claimed. The fiscal effect in subsequent years could potentially be greater than \$10 million, if all new credits certified by Commerce as well as credit amounts carried forward from previous years are used.

Credit for Interest on WHEFA Bonds - The bill would provide an income tax credit for a percentage of interest on bonds issued by WHEFA if the proceeds are used by a health facility to fund the acquisition of information technology hardware or software. As a result, the bill would reduce tax revenues. However, the amount of bonds issued to finance medical information technology and the resulting fiscal effect of the credit are not known. The attached table shows the potential decrease in revenue under varying assumptions.

- Column A. Range of annual issuance amounts of bonds qualifying for the exemption.
- Column B. Based on information from WHEFA, it is estimated that two-thirds of the bonds will be held by individuals and one-third will be held by corporations.
- Column C. Based on information from WHEFA, Wisconsin residents hold approximately 25% of bonds issued by WHEFA, but that amount could increase to as much as 75% if a credit were available for taxes paid on the interest as proposed in the bill. The attached table shows the estimated fiscal effects assuming 25%, 50% and 75% of bonds would be held by state residents.
- Column D. Based on information from WHEFA, the average interest rate on this type of bond would be 4.5%. The actual rates may vary.
- Column E. The rate of credit from the bill, based on whether the bondholder is an individual or a corporation.
- Column F. The fiscal effect would increase each year as more bonds are issued and remained outstanding. This column shows the estimated first year fiscal effect of the exemption.
- Column G. Based on information from WHEFA, bonds for information technology would have a relatively short life. They would probably be issued as seven-year bonds. As a result, the fiscal effect would continue to grow over seven years as more bonds are issued, but then would begin to level off as earlier bonds are retired. This column shows the estimated fiscal effect after seven years and continuing into the future, assuming constant levels of annual issuances.

Thus, if 1) \$200 million in bonds were issued, 2) 66.7% were held by individuals and 33.3% were held by corporations, and 3) 25% of claimants were Wisconsin residents or Wisconsin corporations, the bill would have an annualized revenue loss of \$1,097,176 (\$682,841 + 414,335). If 50% of the claimants were Wisconsin residents or Wisconsin corporations, the annualized revenue loss would be \$2,194,354 (\$1,365,638 + \$828,671). Should the actual number of bonds issued annually, the interest rates, or any other assumptions regarding the bonds change, the actual fiscal effect would also change.

Long-Range Fiscal Implications

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>	<u>Column G</u>
Annual Amount of Issuances	Percent held by Individuals	% of Bonds Held Instate	Average Bond Rate	Individual Tax Rate	First Year Fiscal Effect	After 7 Years and Ongoing
\$ 200,000,000	66.7%	25%	4.5%	6.5%	\$ (97,549)	\$ (682,841)
100,000,000	66.7%	25%	4.5%	6.5%	\$ (48,774)	\$ (341,421)
50,000,000	66.7%	25%	4.5%	6.5%	\$ (24,387)	\$ (170,710)
25,000,000	66.7%	25%	4.5%	6.5%	\$ (12,194)	\$ (85,355)
\$ 200,000,000	66.7%	50%	4.5%	6.5%	\$ (195,098)	\$ (1,365,683)
100,000,000	66.7%	50%	4.5%	6.5%	\$ (97,549)	\$ (682,841)
50,000,000	66.7%	50%	4.5%	6.5%	\$ (48,774)	\$ (341,421)
25,000,000	66.7%	50%	4.5%	6.5%	\$ (24,387)	\$ (170,710)
\$ 200,000,000	66.7%	75%	4.5%	6.5%	\$ (292,646)	\$ (2,048,524)
100,000,000	66.7%	75%	4.5%	6.5%	\$ (146,323)	\$ (1,024,262)
50,000,000	66.7%	75%	4.5%	6.5%	\$ (73,162)	\$ (512,131)
25,000,000	66.7%	75%	4.5%	6.5%	\$ (36,581)	\$ (256,065)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>	<u>Column G</u>
Annual Amount of Issuances	Percent held by Corporations	% of Bonds Held Instate	Average Bond Rate	Corporate Tax Rate	First Year Fiscal Effect	After 7 Years and Ongoing
\$ 200,000,000	33.3%	25%	4.5%	7.9%	\$ (59,191)	\$ (414,335)
100,000,000	33.3%	25%	4.5%	7.9%	\$ (29,595)	\$ (207,168)
50,000,000	33.3%	25%	4.5%	7.9%	\$ (14,798)	\$ (103,584)
25,000,000	33.3%	25%	4.5%	7.9%	\$ (7,399)	\$ (51,792)
\$ 200,000,000	33.3%	50%	4.5%	7.9%	\$ (118,382)	\$ (828,671)
100,000,000	33.3%	50%	4.5%	7.9%	\$ (59,191)	\$ (414,335)
50,000,000	33.3%	50%	4.5%	7.9%	\$ (29,595)	\$ (207,168)
25,000,000	33.3%	50%	4.5%	7.9%	\$ (14,798)	\$ (103,584)
\$ 200,000,000	33.3%	75%	4.5%	7.9%	\$ (177,572)	\$ (1,243,006)
100,000,000	33.3%	75%	4.5%	7.9%	\$ (88,786)	\$ (621,503)
50,000,000	33.3%	75%	4.5%	7.9%	\$ (44,393)	\$ (310,751)
25,000,000	33.3%	75%	4.5%	7.9%	\$ (22,197)	\$ (155,376)

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
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, etc.)			
		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		\$See text	\$
Agency/Prepared By			
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		Rebecca Boldt (608) 266-6785	
Date			
3/6/2007			