



## Fiscal Estimate Narratives

DOR 2/19/2008

|   |           |                     |        |               |          |
|---|-----------|---------------------|--------|---------------|----------|
| LRB Number  | 07-3941/1 | Introduction Number | SB-499 | Estimate Type | Original |
| <b>Description</b><br>An income and franchise tax credit for research conducted in this state by a corporation and a property and sales and use tax exemption for certain tangible personal property used to conduct research |           |                     |        |               |          |

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, a corporation may claim an income and franchise tax credit in an amount equal to 5% of its qualified research expenses, as defined by the Internal Revenue Code, for research conducted in this state. In addition, a corporation may claim an income and franchise tax credit equal to 5% of the amount that it paid in the taxable year to construct and equip new facilities or expand existing facilities used in this state for qualified research, as defined by the Internal Revenue Code.

Under this bill, corporations and insurance companies may claim a "super research credit" equal to the amount by which the taxpayer's qualified research expenses, as defined by sec. 41 of the Internal Revenue Code, exceed 125% of the taxpayer's average qualified research expenses for the three preceding years. The credit is not available to partnerships or tax-option (S) corporations and may not be passed through to partners, members, or shareholders of those entities. The credit is nonrefundable and may not exceed 50% of the taxpayer's tax liability. Unused credits may be carried forward for up to five subsequent taxable years. The credit first applies to expenses incurred in tax years that begin after January 1, 2010.

The bill also creates both a sales and use tax exemption and a property tax exemption for machinery and equipment sold to or used by persons who are primarily engaged in manufacturing or biotechnology if the machinery and equipment is used exclusively and directly in qualified research as defined by the Internal Revenue Code. The bill also exempts from both sales and use taxes and property taxes tangible personal property sold to or used by persons who are primarily engaged in manufacturing or biotechnology if the tangible personal property is consumed or destroyed or loses its identity while being used exclusively and directly in qualified research. The exemptions are first effective, or initially apply on, January 1, 2009.

### Fiscal effect

**Sales Tax Exemption** - Based on the National Science Foundation's Survey of Industrial Research and Development, an estimated \$1.98 billion was expended in Wisconsin by manufacturers and businesses engaged in biotechnology on research and development in 2005. Assuming that 90% of this amount was expended for salaries, fringe benefits, real property, and non-qualified research, 10% (\$198 million) was expended on machinery, equipment and tangible personal property eligible for the sales tax exemption under the bill. Consequently, the annual sales tax reduction under the bill is estimated at \$9.9 million (\$198.0 million X 5%).

County and stadium taxes were 7.7% of state sales taxes in FY07. Assuming this percentage does not change, county and stadium sales and use taxes would decrease by \$760,000 annually under the bill.

**Property Tax Exemption** - Assuming that 20% of the estimated amount of R&D expenditures on machinery and equipment is computer equipment (already exempt from property taxation), the bill is estimated to shift approximately \$9 million of property taxes annually from the owners of manufacturing and biotechnology R&D equipment to the owners of all remaining taxable property.

**Franchise and Income Tax Credit** - Based on an analysis of data from a sample of tax returns for tax years 2001 and 2003 where the taxpayer claimed the existing research credit, the fiscal effect of the credit under the bill is estimated to be an annual revenue loss of \$7.5 million.

Total GPR revenue loss is estimated to be \$17.4 million annually.

### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

|   |               |  |                 |
|---|---------------|--|-----------------|
| <b>LRB Number 07-3941/1</b>   |               | <b>Introduction Number SB-499</b>              |                 |
| <b>Description</b><br>An income and franchise tax credit for research conducted in this state by a corporation and a property and sales and use tax exemption for certain tangible personal property used to conduct research         |               |  |                 |
| <b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b><br><br>Annual county and stadium local revenue loss as a result of the bill is estimated to be \$760,000. |               |  |                 |
| <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   | \$            | \$-17,400,000                                  |                 |
| GPR Earned  |               |  |                 |
| FED   |               |  |                 |
| PRO/PRS   |               |  |                 |
| SEG/SEG-S   |               |  |                 |
| <b>TOTAL State Revenues</b>   | <b>\$</b>     | <b>\$-17,400,000</b>                           |                 |
| <b>NET ANNUALIZED FISCAL IMPACT</b>   |               |  |                 |
|   | State         | Local  |                 |
| NET CHANGE IN COSTS   | \$            | \$   |                 |
| NET CHANGE IN REVENUE   | \$-17,400,000 | \$   |                 |
| <b>Agency/Prepared By</b>   |               | <b>Authorized Signature</b>                    | <b>Date</b>     |
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