



2007 DRAFTING REQUEST

Bill

Received: 11/13/2006

Received By: jkreye

Wanted: As time permits

Identical to LRB:

For: Administration-Budget

By/Representing: Easton

This file may be shown to any legislator: NO

Drafter: jkreye

May Contact:

Addl. Drafters:

Subject: Tax, Business - credits

Extra Copies:

Submit via email: NO

Pre Topic:

DOA:.....Easton, BB0162 -

Topic:

Changes to enterprise zone jobs credits

Instructions:

See Attached

Drafting History:

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/?				_____			State
/1	jkreye 11/14/2006	kfollett 11/15/2006	pgreensl 11/15/2006	_____	cduerst 11/15/2006		State
/2	jkreye 12/06/2006	kfollett 12/06/2006	rschluet 12/07/2006	_____	sbasford 12/07/2006		

FE Sent For:

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FE Sent For:

12/kjf
12/6

<END>

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<END>

FE Sent For:

0722

2007-09 Budget Bill Statutory Language Drafting Request

- Topic: Simplify Enterprise Zone Job Credits
- Tracking Code: BB0162
- SBO team: Tax and Local Government
- SBO analyst: Easton
 - Phone: 6-7597
 - Email: Darren.easton@wisconsin.gov
- Agency acronym: DOR
- Agency number: 566
- Priority (Low, Medium, High): Low

unintended
consequences

**Legislative Proposal Summary
Wisconsin Department of Revenue
Research and Policy Division**

August 1, 2006

TITLE: ENTERPRISE ZONE JOBS CREDIT

DESCRIPTION OF CURRENT LAW AND PROBLEM

2005 Act 361 (AB 208) created a refundable enterprise zone credit. The credit has three components: (1) a payroll component based on changes in the claimant's payroll over a base year; (2) a component available only to claimants whose entire property and payroll is in the enterprise zone, which is based on the sum of the claimant's payroll and basis of property; and (3) a component based on the amount a claimant pays for training to upgrade the skills of full-time employees who work in the enterprise zone.

While it appears the statutory language intends to award credits for the creation of jobs that pay at least \$30,000, the actual language does not always accomplish this in a way that is fair or consistent. In particular, the language awards higher credits for increasing the pay of current employees than for creating new jobs. Moreover, under certain circumstances, credits could be awarded for the creation of jobs paying well below \$30,000. Attachment A provides examples that show these unintended effects.

Also, the supplemental credit for businesses operating exclusively in the enterprise zone gives claimants an ongoing credit for property costs incurred in previous years. Potentially, the credit could also be claimed on property that has been fully depreciated. It would be more effective to give credits based on property placed in service during the taxable year.

Finally, the supplemental credit for training expenses is very broad and may be subject to abuse. No definition is given in the statute of what constitutes creditable training costs. In particular, the statute does not require that the training be job related, and does not exclude payroll costs for employees who train other employees, even though those payroll costs are already included in the calculation of other enterprise zone job credits.

RECOMMENDATION FOR ACTION

1. Change the formula for the payroll credit so that it gives credits for the creation of high-paying jobs in the enterprise zone and to ensure consistent treatment of all claimants.
2. Refocus the supplemental credit to give credits based on property placed in service during the taxable year.
3. Clarify the definition of creditable training costs.

use
this

ADMINISTRATIVE IMPACT

1. Minimal or no change from current law.
2. Minimal or no change from current law.
3. Will improve administration of the credit by clarifying the definition of creditable training costs.

FAIRNESS/TAX EQUITY

1. Improving the formula will increase tax equity by allowing consistent treatment of all claimants and will ensure that credits are awarded for the creation of well-paying jobs.
2. This change will align the credits with the costs associated with them.
3. Clarifying the definition of training will ensure that all claimants know what costs are creditable and will allow Department auditors to treat all claimants the same.

IMPACT ON ECONOMIC DEVELOPMENT

1. Changing the formula for the jobs credit will ensure that companies that create high-paying jobs receive the credit.
2. This credit will help claimants recoup startup costs for property used in the enterprise zone.
3. Clarifying the definition of creditable training costs will help guide claimants in crafting training programs that will be eligible for the credit.

FISCAL EFFECT

The fiscal effect cannot be determined, but it is anticipated that it will increase revenue relative to the current law. Attachment B provides examples that show the potential for increased revenue under this proposal.

DRAFTING INSTRUCTIONS

1. Change the formula so that only claimants with a payroll average of \$30,000 per full-time employee in the tax year are eligible for a credit. Calculate the credit as the difference between the average zone payroll in the tax year minus \$30,000 multiplied by the lesser of (1) the difference in the number of full-time zone employees in the tax year and the number of zone employees in the base year or (2) the difference in the number of full-time state employees in the tax year and the number of state employees in the base year. The product is then multiplied by seven percent.

Repeal and recreate s 71.07(3w)(b) to read as follows:

(b) *Filing claims; payroll.* Subject to the limitations provided in this subsection and s. 560.799, a claimant may claim as a credit against the tax imposed under ss. 71.02 or 71.08 an amount calculated as follows:

1. Determine the amount that is the lesser of:
 - a. The number of full-time employees that the claimant employed in the enterprise zone in the taxable year minus the number of full time employees that the claimant employed in the area that comprises the enterprise zone in the base year.
 - b. The number of full-time employees that the claimant employed in the state in the taxable year minus the number of full time employees that the claimant employed in the state in the base year.
2. Determine the claimant's average zone payroll in the taxable year by dividing total zone payroll in the taxable year by the number of full time employees that the claimant employed in the zone in the taxable year.

3. Subtract \$30,000 from the amount determined under subsection (b)2.
4. Multiply the amount determined under subsection (b)3 by the amount determined under subsection (b)1.
5. Multiply the amount determined under subsection (b)4 by 7 percent.

Repeal and recreate s. 71.28(3w)(b) to read as follows:

(b) *Filing claims; payroll.* Subject to the limitations provided in this subsection and s. 560.799, a claimant may claim as a credit against the tax imposed under s. 71.23 an amount calculated as follows:

1. Determine the amount that is the lesser of:
 - a. The number of full-time employees that the claimant employed in the enterprise zone in the taxable year minus the number of full time employees that the claimant employed in the area that comprises the enterprise zone in the base year.
 - b. The number of full-time employees that the claimant employed in the state in the taxable year minus the number of full time employees that the claimant employed in the state in the base year.
2. Determine the claimant's average zone payroll in the taxable year by dividing total zone payroll in the taxable year by the number of full time employees that the claimant employed in the zone in the taxable year.
3. Subtract \$30,000 from the amount determined under subsection (b)2.
4. Multiply the amount determined under subsection (b)3 by the amount determined under subsection (b)1.
5. Multiply the amount determined under subsection (b)4 by 7 percent.

Repeal and recreate s. 71.47(3w)(b) to read as follows:

(b) *Filing claims; payroll.* Subject to the limitations provided in this subsection and s. 560.799, a claimant may claim as a credit against the tax imposed under s. 71.43 an amount calculated as follows:

1. Determine the amount that is the lesser of:
 - a. The number of full-time employees that the claimant employed in the enterprise zone in the taxable year minus the number of full time employees that the claimant employed in the area that comprises the enterprise zone in the base year.
 - b. The number of full-time employees that the claimant employed in the state in the taxable year minus the number of full time employees that the claimant employed in the state in the base year.
2. Determine the claimant's average zone payroll in the taxable year by dividing total zone payroll in the taxable year by the number of full time employees that the claimant employed in the zone in the taxable year.
3. Subtract \$30,000 from the amount determined under subsection (b)2.

4. Multiply the amount determined under subsection (b)3 by the amount determined under subsection (b)1.
 5. Multiply the amount determined under subsection (b)4 by 7 percent.
2. Modify the supplemental credit to make the credit on the basis of claimant's zone property a one-time credit.

Amend s. 71.07(3w)(bm)3 as follows:

3. If all of the claimant's payroll is zone payroll and all of the claimant's business-related property is located in an enterprise zone, ~~the amount obtained by multiplying 20 percent of the sum of the claimant's zone payroll in the taxable year and the adjusted basis of the claimant's property at the time that the property is first placed in service in the enterprise zone by 6.5 percent.~~

Create s. 71.07(3w)(bm)3.a. and 3.b. to read as follows:

- a. The amount obtained by multiplying 20 percent of the sum of the claimant's zone payroll in the taxable year by 6.5 percent.
- b. In the first taxable year that the claimant is eligible to claim a credit under this subsection, the amount obtained by multiplying 20 percent of the adjusted basis of the claimant's property at the time that the property is first placed in service in the enterprise zone by 6.5 percent. In taxable years after the first year that the claimant is eligible to claim a credit under this subsection, the amount obtained by multiplying 20 percent of capital expenditures for property placed into service in the zone in the taxable year by 6.5 percent.

Amend s. 71.28(3w)(bm)3 as follows:

3. If all of the claimant's payroll is zone payroll and all of the claimant's business-related property is located in an enterprise zone, ~~the amount obtained by multiplying 20 percent of the sum of the claimant's zone payroll in the taxable year and the adjusted basis of the claimant's property at the time that the property is first placed in service in the enterprise zone by 7.9 percent.~~

Create s. 71.28(3w)(bm)3.a. and 3.b. to read as follows:

- a. The amount obtained by multiplying 20 percent of the sum of the claimant's zone payroll in the taxable year by 7.9 percent.
- b. In the first taxable year that the claimant is eligible to claim a credit under this subsection, the amount obtained by multiplying 20 percent of the adjusted basis of the claimant's property at the time that the property is first placed in service in the enterprise zone by 6.5 percent. In taxable years after the first year that the claimant is eligible to claim a credit under this subsection, the amount obtained by multiplying 20 percent of capital expenditures for property placed into service in the zone in the taxable year by 7.9 percent.

Amend s. 71.47(3w)(bm)3 as follows:

3. If all of the claimant's payroll is zone payroll and all of the claimant's business-related property is located in an enterprise zone, ~~the amount obtained by multiplying 20 percent of the sum of the claimant's zone payroll in the taxable year and the adjusted basis of the claimant's property at the time that the property is first placed in service in the enterprise zone by 7.9 percent.~~

Create s. 71.47(3w)(bm)3.a. and 3.b. to read as follows:

- a. The amount obtained by multiplying 20 percent of the sum of the claimant's zone payroll in the taxable year by 7.9 percent.
 - b. In the first taxable year that the claimant is eligible to claim a credit under this subsection, the amount obtained by multiplying 20 percent of the adjusted basis of the claimant's property at the time that the property is first placed in service in the enterprise zone by 6.5 percent. In taxable years after the first year that the claimant is eligible to claim a credit under this subsection, the amount obtained by multiplying 20 percent of capital expenditures for property placed into service in the zone in the taxable year by 7.9 percent.
3. Better define what constitutes creditable training costs.

Amend s. 71.07(3w)(bm)4, 71.28(3w)(bm)4, and 71.47(3w)(bm)4 to read as follows:

4. ~~The~~Except for payroll costs used as the basis for a claim under (3w)(b) and (3w)(bm)3.a) in this subsection, the amount the claimant paid in the taxable year to upgrade or improve the job-related skills of any of the claimant's full-time employees, to train any of the claimant's full-time employees on the use of new job-related technologies, or to train provide job-related training to any full-time employee whose employment with the claimant represents the employee's first full-time job. This subdivision does not apply to employees who do not work in an enterprise zone.

EFFECTIVE DATE AND/OR INITIAL APPLICABILITY

Taxable years beginning on or after January 1, 2007.

INTERESTED/AFFECTED PARTIES

Department of Commerce, taxpayers interested in establishing or expanding businesses in enterprise zones.

DOR CONTACT PERSON

Michael Oakleaf, (608) 261-5173
Michael.oakleaf@dor.state.wi.us

MO:skr

M:\Leg Proposals\2007-09 Bud Proposals\RP-mo Enterprise Zone.doc

Attachment A: Examples of Unintended Credit Effects for Similar Business Behavior

As shown below, two businesses that increase their payroll by approximately the same amount would receive very different credits under the formula, with the business that creates no new jobs receiving the larger credit. Business A increases its payroll by \$70,886 to employ two additional workers with a payroll cost of \$35,443 each, and receives a credit of \$762. Business B creates no new jobs but increases its payroll by \$70,720 to give raises to existing employees, and receives a credit of \$4,950, seven times larger than the credit given to Business A.

Business A:

	Number of Full-time Employees	Average Wage	Total Payroll
Base Year	100	15.00	\$3,120,000
Tax Year	102	15.04	\$3,190,886
Difference	2		\$70,886
Multiply jobs created x 30,000			60,000
Subtract payroll difference			10,886
Credit			\$762

Business B:

	Number of Full-time Employees	Average Wage	Total Payroll
Base Year	100	15.00	\$3,120,000
Tax Year	100	15.34	\$3,190,720
Difference	0		\$70,720
Multiply jobs x 30,000			0
Subtract payroll difference			70,720
Credit			\$4,950

The credit is also not limited to companies who pay high wages to their workers. For example, as shown below a company with 100 full-time employees could conceivably receive a credit of \$3,640 if it creates no new jobs, its base wage is the minimum wage, and it increases that wage only slightly.

	Number of Full-time Employees	Average Wage	Total Payroll
Base Year	100	\$5.70	\$1,185,600
Tax Year	100	\$5.95	\$1,237,600
Difference	0		\$52,000
Multiply jobs by 30,000			0
Subtract payroll difference			\$52,000
Credit			\$3,640

Attachment B: Examples of Fiscal Effects Under Current Law and Proposal

1. Only claimants that create high-paying jobs would be eligible to claim the credit:

Base Year		Tax Year		Credit Available	
Jobs	Average Wage	Jobs	Average Wage	Current Law	Proposal
100	15.00	102	15.04	762.00	180.00
100	15.00	100	15.34	4,950.00	0.00
100	5.70	100	5.95	3,640.00	0.00
0	0.00	15	15.00	1,260.00	1,260.00
10	12.00	25	15.00	5,628.00	1,260.00

In the first two cases, a credit is provided only for the creation of additional jobs; no credit is provided for increasing the average payroll of existing jobs. In the third case, no credit is provided unless new jobs pay at least \$14.43 per hour. In the final two cases, the same credit is provided for the creation of 15 new jobs irrespective of the number of jobs existing in the base year.

2. Under current law, businesses located entirely in an enterprise zone would receive a credit each year for property costs incurred in prior years, whereas the proposed change would give credits based on property placed in service in the taxable year.

Business A and Business B both have all of their property and payroll in an Enterprise Zone. Business A invests \$1,000,000 in capital equipment in year 1, while Business B invests \$500,000 in capital equipment in year 1 and \$50,000 in years 2 through 11 for a total investment of \$1,000,000. Both businesses have total payroll in year 1 of \$780,000 which increases by 3 percent each year.

Business A:

Tax Year	Basis	Capital Investment	Payroll	Current Law	Proposal
1	1,000,000		780,000	28,124	28,124
2	1,000,000		803,400	28,494	12,694
3	1,000,000		827,502	28,875	13,075
4	1,000,000		852,327	29,267	13,467
5	1,000,000		877,897	29,671	13,871
6	1,000,000		904,234	30,087	14,287
7	1,000,000		931,361	30,516	14,716
8	1,000,000		959,302	30,957	15,157
9	1,000,000		988,081	31,412	15,612
10	1,000,000		1,017,723	31,880	16,080
11	1,000,000		1,048,255	32,362	16,562
12	1,000,000		1,079,702	32,859	17,059
			Total Credits	364,503	190,703

Business B:

Tax Year	Basis	Capital Investment	Payroll	Current Law	Proposal
1	500,000		780,000	20,224	20,224
2	500,000	50,000	803,400	20,594	13,484
3	500,000	50,000	827,502	20,975	13,865
4	500,000	50,000	852,327	21,367	14,257
5	500,000	50,000	877,897	21,771	14,661
6	500,000	50,000	904,234	22,187	15,077
7	500,000	50,000	931,361	22,616	15,506
8	500,000	50,000	959,302	23,057	15,947
9	500,000	50,000	988,081	23,512	16,402
10	500,000	50,000	1,017,723	23,980	16,870
11	500,000	50,000	1,048,255	24,462	17,352
12	500,000		1,079,702	24,959	17,059
			Total Credits	269,703	190,703

Under current law, both businesses have invested \$1 million in capital expenditures over the zone life (12 years), but Business A receives a larger credit because it made a larger initial investment. Under the proposal, these companies would be treated the same.

3. Three businesses expend various amounts for training using their own employees and outside training resources.

Training-related Payroll Expenses	External Training Costs	Available Credit	
		Current Law	Proposal
50,000	15,000	65,000	15,000
25,000	10,000	35,000	10,000
10,000	5,000	15,000	5,000



State of Wisconsin
2007 - 2008 LEGISLATURE

LRB-0722/1
JK: *kyf*

DOA:.....Easton, BB0162 - Changes to enterprise zone jobs credits

FOR 2007-09 BUDGET -- NOT READY FOR INTRODUCTION

in 11-14-06
DN

Do Not Gen

1 AN ACT ...; relating to: the budget

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

This bill makes technical corrections to the enterprise zone jobs income and franchise tax credits in order to simplify the administration of the credits.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

2 SECTION 1. 71.07 (3w) (b) 1. a. of the statutes is amended to read:
3 71.07 (3w) (b) 1. a. The claimant's zone payroll in the taxable year, minus the
4 claimant's zone payroll number of full-time employees that the claimant employed
5 in the enterprise zone in the taxable year minus the number of full-time employees

1 that the claimant employed in the area that comprises the enterprise zone in the base
 2 year.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9, 10, 32; 1999 a. 150 s. 672; 1999 a. 198; 2001 a. 16, 109; 2003 a. 72, 99, 135, 183, 255, 267, 326; 2005 a. 25, 49, 72, 74, 97, 177, 254, 361, 387, 479, 483, 487.

3 **SECTION 2.** 71.07 (3w) (b) 1. b. of the statutes is amended to read:

4 **71.07 (3w) (b) 1. b.** The claimant's state payroll in the taxable year, minus the
 5 claimant's state payroll number of full-time employees that the claimant employed
 6 in the state in the taxable year minus the number of full-time employees that the
 7 claimant employed in the state in the base year.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9, 10, 32; 1999 a. 150 s. 672; 1999 a. 198; 2001 a. 16, 109; 2003 a. 72, 99, 135, 183, 255, 267, 326; 2005 a. 25, 49, 72, 74, 97, 177, 254, 361, 387, 479, 483, 487.

8 **SECTION 3.** 71.07 (3w) (b) 2. of the statutes is amended to read:

9 **71.07 (3w) (b) 2.** Subtract the number of full-time employees that the claimant
 10 employed in the area that comprises the enterprise zone in the base year from
 11 Determine the claimant's average zone payroll in the taxable year by dividing the
 12 claimant's total zone payroll in the taxable year by the number of full-time
 13 employees that the claimant employed in the enterprise zone in the taxable year.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9, 10, 32; 1999 a. 150 s. 672; 1999 a. 198; 2001 a. 16, 109; 2003 a. 72, 99, 135, 183, 255, 267, 326; 2005 a. 25, 49, 72, 74, 97, 177, 254, 361, 387, 479, 483, 487.

14 **SECTION 4.** 71.07 (3w) (b) 3. of the statutes is amended to read:

15 **71.07 (3w) (b) 3.** Multiply Subtract \$30,000 from the amount determined under
 16 subd. 2, ^{plain period} but not an amount less than zero, by \$30,000.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9, 10, 32; 1999 a. 150 s. 672; 1999 a. 198; 2001 a. 16, 109; 2003 a. 72, 99, 135, 183, 255, 267, 326; 2005 a. 25, 49, 72, 74, 97, 177, 254, 361, 387, 479, 483, 487.

17 **SECTION 5.** 71.07 (3w) (b) 4. of the statutes is amended to read:

18 **71.07 (3w) (b) 4.** Subtract Multiply the amount determined under subd. 3. from
 19 by the amount determined under subd. 1.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9, 10, 32; 1999 a. 150 s. 672; 1999 a. 198; 2001 a. 16, 109; 2003 a. 72, 99, 135, 183, 255, 267, 326; 2005 a. 25, 49, 72, 74, 97, 177, 254, 361, 387, 479, 483, 487.

1 **SECTION 6.** 71.07 (3w) (bm) 3. of the statutes is renumbered 71.07 (3w) (bm) 3.
 2 (intro.) and amended to read:

3 71.07 (3w) (bm) 3. (intro.) If all of the claimant's payroll is zone payroll and all
 4 of the claimant's business-related property is located in ~~a~~ an enterprise zone, all of
 5 the following:

6 a. The amount obtained by multiplying 20 percent of the sum of the claimant's
 7 zone payroll in the taxable year ~~and the adjusted basis of the claimant's property at~~
 8 ~~the time that the property is first placed in service in the enterprise zone~~ by 6.5
 9 percent.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9, 10, 32; 1999 a. 150 s. 672; 1999 a. 198; 2001 a. 16, 109; 2003 a. 72, 99, 135, 183, 255, 267, 326; 2005 a. 25, 49, 72, 74, 97, 177, 254, 361, 387, 479, 483, 487.

10 **SECTION 7.** 71.07 (3w) (bm) 3. b. of the statutes is created to read:

11 71.07 (3w) (bm) 3. b. In the first taxable year that the claimant is eligible to
 12 claim a credit under this subsection, the amount obtained by multiplying 20 percent
 13 of the adjusted basis of the claimant's property at the time that the property is first
 14 placed in service in the enterprise zone by 6.5 percent. In taxable years following the
 15 first taxable year that the claimant is eligible to claim a credit under this subsection,
 16 the amount obtained by multiplying 20 percent of the claimant's capital
 17 expenditures for property placed in service in the enterprise zone in the taxable year
 18 by 6.5 percent.

19 **SECTION 8.** 71.07 (3w) (bm) 4. of the statutes is amended to read:

20 71.07 (3w) (bm) 4. The Except for payroll costs that are used as the basis for
 21 a claim under par. (b) or subd. 3. a., the amount the claimant paid in the taxable year
 22 to upgrade or improve the job-related skills of any of the claimant's full-time
 23 employees, to train any of the claimant's full-time employees on the use of new
 24 job-related technologies, or to train provide job-related training to any full-time

1 employee whose employment with the claimant represents the employee's first
2 full-time job. This subdivision does not apply to employees who do not work in ~~a~~ [↓] an
3 enterprise zone.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9, 10, 32; 1999 a. 150 s. 672; 1999 a. 198; 2001 a. 16, 109; 2003 a. 72, 99, 135, 183, 255, 267, 326; 2005 a. 25, 49, 72, 74, 97, 177, 254, 361, 387, 479, 483, 487.

4 **SECTION 9.** 71.28 (3w) (b) 1. a. of the statutes is amended to read:

5 71.28 (3w) (b) 1. a. The claimant's zone payroll in the taxable year, minus the
6 claimant's zone payroll number of full-time employees that the claimant employed
7 in the enterprise zone in the taxable year minus the number of full-time employees
8 that the claimant employed in the area that comprises the enterprise zone in the base
9 year.

History: 1987 a. 312; 1987 a. 411 ss. 88, 130 to 139; 1987 a. 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292; 1993 a. 16, 112, 232, 491; 1995 a. 2; 1995 a. 27 ss. 3399r to 3404c, 9116 (5); 1995 a. 209, 227; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

10 **SECTION 10.** 71.28 (3w) (b) 1. b. of the statutes is amended to read:

11 71.28 (3w) (b) 1. b. The claimant's state payroll in the taxable year, minus the
12 claimant's state payroll number of full-time employees that the claimant employed
13 in the state in the taxable year minus the number of full-time employees that the
14 claimant employed in the state in the base year.

History: 1987 a. 312; 1987 a. 411 ss. 88, 130 to 139; 1987 a. 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292; 1993 a. 16, 112, 232, 491; 1995 a. 2; 1995 a. 27 ss. 3399r to 3404c, 9116 (5); 1995 a. 209, 227; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

15 **SECTION 11.** 71.28 (3w) (b) 2. of the statutes is amended to read:

16 71.28 (3w) (b) 2. Subtract the number of full-time employees that the claimant
17 employed in the area that comprises the enterprise zone in the base year from
18 Determine the claimant's average zone payroll in the taxable year by dividing the
19 claimant's total zone payroll in the taxable year by the number of full-time
20 employees that the claimant employed in the enterprise zone in the taxable year.

History: 1987 a. 312; 1987 a. 411 ss. 88, 130 to 139; 1987 a. 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292; 1993 a. 16, 112, 232, 491; 1995 a. 2; 1995 a. 27 ss. 3399r to 3404c, 9116 (5); 1995 a. 209, 227; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

21 **SECTION 12.** 71.28 (3w) (b) 3. of the statutes is amended to read:

1 71.28 (3w) (b) 3. ~~Multiply Subtract~~ \$30,000 from the amount determined under
 2 subd. ~~2,~~ ^{plain period} but not an amount less than zero, by \$30,000. ↓

History: 1987 a. 312; 1987 a. 411 ss. 88, 130 to 139; 1987 a. 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292; 1993 a. 16, 112, 232, 491; 1995 a. 2; 1995 a. 27 ss. 3399r to 3404c, 9116 (5); 1995 a. 209, 227; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

3 **SECTION 13.** 71.28 (3w) (b) 4. of the statutes is amended to read:

4 71.28 (3w) (b) 4. ~~Subtract~~ Multiply the amount determined under subd. 3. from
 5 by the amount determined under subd. 1.

History: 1987 a. 312; 1987 a. 411 ss. 88, 130 to 139; 1987 a. 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292; 1993 a. 16, 112, 232, 491; 1995 a. 2; 1995 a. 27 ss. 3399r to 3404c, 9116 (5); 1995 a. 209, 227; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

6 **SECTION 14.** 71.28 (3w) (bm) 3. of the statutes is renumbered 71.28 (3w) (bm)

7 3. (intro.) and amended to read:

8 71.28 (3w) (bm) 3. (intro.) If all of the claimant's payroll is zone payroll and all

9 of the claimant's business-related property is located in ~~a~~ an enterprise zone, all of
 10 the following:

11 a. The amount obtained by multiplying 20 percent of the sum of the claimant's
 12 zone payroll in the taxable year ~~and the adjusted basis of the claimant's property at~~
 13 the time that the property is first placed in service in the enterprise zone by 7.9
 14 percent.

History: 1987 a. 312; 1987 a. 411 ss. 88, 130 to 139; 1987 a. 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292; 1993 a. 16, 112, 232, 491; 1995 a. 2; 1995 a. 27 ss. 3399r to 3404c, 9116 (5); 1995 a. 209, 227; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

15 **SECTION 15.** 71.28 (3w) (bm) 3. b. of the statutes is created to read:

16 71.28 (3w) (bm) 3. b. In the first taxable year that the claimant is eligible to
 17 claim a credit under this subsection, the amount obtained by multiplying 20 percent
 18 of the adjusted basis of the claimant's property at the time that the property is first
 19 placed in service in the enterprise zone by 6.5 percent. In taxable years following the
 20 first taxable year that the claimant is eligible to claim a credit under this subsection,
 21 the amount obtained by multiplying 20 percent of the claimant's capital

1 expenditures for property placed in service in the enterprise zone in the taxable year
2 by 7.9 percent.

3 **SECTION 16.** 71.28 (3w) (bm) 4. of the statutes is amended to read:

4 71.28 (3w) (bm) 4. The Except for payroll costs that are used as the basis for
5 a claim under par. (b) or subd. 3. a., the amount the claimant paid in the taxable year
6 to upgrade or improve the job-related skills of any of the claimant's full-time
7 employees, to train any of the claimant's full-time employees on the use of new
8 job-related technologies, or to ~~train~~ provide job-related training to any full-time
9 employee whose employment with the claimant represents the employee's first
10 full-time job. This subdivision does not apply to employees who do not work in ~~an~~ an
11 enterprise zone.

History: 1987 a. 312; 1987 a. 411 ss. 88, 130 to 139; 1987 a. 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292; 1993 a. 16, 112, 232, 491; 1995 a. 2; 1995 a. 27 ss. 3399r to 3404c, 9116 (5); 1995 a. 209, 227; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

12 **SECTION 17.** 71.47 (3w) (b) 1. a. of the statutes is amended to read:

13 71.47 (3w) (b) 1. a. The ~~claimant's zone payroll in the taxable year, minus the~~
14 ~~claimant's zone payroll~~ number of full-time employees that the claimant employed
15 in the enterprise zone in the taxable year minus the number of full-time employees
16 that the claimant employed in the area that comprises the enterprise zone in the base
17 year.

History: 1987 a. 312, 411, 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292, 315; 1993 a. 16, 112; 1995 a. 27 ss. 3407m to 3412m, 9116 (5); 1995 a. 209, 227, 417; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

18 **SECTION 18.** 71.47 (3w) (b) 1. b. of the statutes is amended to read:

19 71.47 (3w) (b) 1. b. The ~~claimant's state payroll in the taxable year, minus the~~
20 ~~claimant's state payroll~~ number of full-time employees that the claimant employed
21 in the state in the taxable year minus the number of full-time employees that the
22 claimant employed in the state in the base year.

History: 1987 a. 312, 411, 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292, 315; 1993 a. 16, 112; 1995 a. 27 ss. 3407m to 3412m, 9116 (5); 1995 a. 209, 227, 417; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

23 **SECTION 19.** 71.47 (3w) (b) 2. of the statutes is amended to read:

1 71.47 (3w) (b) 2. ~~Subtract the number of full-time employees that the claimant~~
2 ~~employed in the area that comprises the enterprise zone in the base year from~~
3 Determine the claimant's average zone payroll in the taxable year by dividing the
4 claimant's total zone payroll in the taxable year by the number of full-time
5 employees that the claimant employed in the enterprise zone in the taxable year.

History: 1987 a. 312, 411, 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292, 315; 1993 a. 16, 112; 1995 a. 27 ss. 3407m to 3412m, 9116 (5); 1995 a. 209, 227, 417; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

6 **SECTION 20.** 71.47 (3w) (b) 3. of the statutes is amended to read:

7 71.47 (3w) (b) 3. ~~Multiply Subtract \$30,000 from~~ the amount determined under
8 subd. 2, ^{plain period} but not an amount less than zero, by \$30,000. [↓]

History: 1987 a. 312, 411, 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292, 315; 1993 a. 16, 112; 1995 a. 27 ss. 3407m to 3412m, 9116 (5); 1995 a. 209, 227, 417; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

9 **SECTION 21.** 71.47 (3w) (b) 4. of the statutes is amended to read:

10 71.47 (3w) (b) 4. ~~Subtract Multiply~~ the amount determined under subd. 3. ~~from~~
11 by the amount determined under subd. 1.

History: 1987 a. 312, 411, 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292, 315; 1993 a. 16, 112; 1995 a. 27 ss. 3407m to 3412m, 9116 (5); 1995 a. 209, 227, 417; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

12 **SECTION 22.** 71.47 (3w) (bm) 3. of the statutes is renumbered 71.47 (3w) (bm)

13 3. (intro.) and amended to read:

14 71.47 (3w) (bm) 3. (intro.) If all of the claimant's payroll is zone payroll and all
15 of the claimant's business-related property is located in ~~a~~ [↓] an enterprise zone, all of
16 the following:

17 a. The amount obtained by multiplying 20 percent of the sum of the claimant's
18 zone payroll in the taxable year and the ~~adjusted basis of the claimant's property at~~
19 ~~the time that the property is first placed in service in the enterprise zone by 7.9~~
20 percent.

History: 1987 a. 312, 411, 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292, 315; 1993 a. 16, 112; 1995 a. 27 ss. 3407m to 3412m, 9116 (5); 1995 a. 209, 227, 417; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

21 **SECTION 23.** 71.47 (3w) (bm) 3. b. of the statutes is created to read:

1 71.47 (3w) (bm) 3. b. In the first taxable year that the claimant is eligible to
 2 claim a credit under this subsection, the amount obtained by multiplying 20 percent
 3 of the adjusted basis of the claimant's property at the time that the property is first
 4 placed in service in the enterprise zone by 6.5 percent. In taxable years following the
 5 first taxable year that the claimant is eligible to claim a credit under this subsection,
 6 the amount obtained by multiplying 20 percent of the claimant's capital
 7 expenditures for property placed in service in the enterprise zone in the taxable year
 8 by 7.9 percent.

9 SECTION 24. 71.47 (3w) (bm) 4. of the statutes is amended to read:

10 71.47 (3w) (bm) 4. The Except for payroll costs that are used as the basis for
 11 a claim under par. (b) or subd. 3. a., the amount the claimant paid in the taxable year
 12 to upgrade or improve the job-related skills of any of the claimant's full-time
 13 employees, to train any of the claimant's full-time employees on the use of new
 14 job-related technologies, or to train provide job-related training to any full-time
 15 employee whose employment with the claimant represents the employee's first
 16 full-time job. This subdivision does not apply to employees who do not work in an
 17 enterprise zone.

History: 1987 a. 312, 411, 422; 1989 a. 31, 44, 56, 100, 336, 359; 1991 a. 39, 292, 315; 1993 a. 16, 112; 1995 a. 27 ss. 3407m to 3412m, 9116 (5); 1995 a. 209, 227, 417; 1997 a. 27, 41, 237, 299; 1999 a. 5, 9; 2001 a. 16; 2003 a. 72, 99, 135, 255, 267, 326; 2005 a. 25, 74, 97, 361, 387, 452, 479, 483, 487; s. 13.93 (2) (c).

18 SECTION 9341. Initial applicability; Revenue.

19 (1) ENTERPRISE ZONE JOBS CREDIT. The renumbering and amendment of sections
 20 71.07 (3w) (bm) 3., 71.28 (3w) (bm) 3., and 71.47 (3w) (bm) 3. ^{of the statutes} the amendment of
 21 sections 71.07 (3w) (b) 1. a. and b., 2., 3., and 4., and (bm) 4., 71.28 (3w) (b) 1. a. and
 22 b., 2., 3., and 4., and (bm) 4., and 71.47 (3w) (b) 1. a. and b., 2., 3., and 4., and (bm)

of the statutes

1

4. and the creation of sections 71.07 (3w) (bm) 3. b., 71.28 (3w) (bm) 3. b., and 71.47

2

(3w) (bm) 3. b. of the statutes first applies to taxable years beginning on July 1, 2007.

3

(END)

D-Note

**DRAFTER'S NOTE
FROM THE
LEGISLATIVE REFERENCE BUREAU**

LRB-0722/1dn

JK: *kgf*

Date

X
Please review this draft carefully to ensure that it is consistent with your intent. The instructions indicate the changes made by this draft should first apply to taxable years beginning on January 1, 2007. However, the credit itself, created by 2005 Wisconsin Act 361 first applies to taxable years beginning on July 1, 2007. Do you want the changes made by this draft to apply to taxable years beginning on or after July 1, 2007, or do you want the changes made by this draft and the credit created in 2005 Wisconsin Act 361 to apply to taxable years beginning on or after January 1, 2007?

Joseph T. Kreye
Legislative Attorney
Phone: (608) 266-2263
E-mail: joseph.kreye@legis.wisconsin.gov

DRAFTER'S NOTE
FROM THE
LEGISLATIVE REFERENCE BUREAU

LRB-0722/1dn
JK:kjf:pg

November 15, 2006

Please review this draft carefully to ensure that it is consistent with your intent. The instructions indicate the changes made by this draft should first apply to taxable years beginning on January 1, 2007. However, the credit itself, created by 2005 Wisconsin Act 361 first applies to taxable years beginning on July 1, 2007. Do you want the changes made by this draft to apply to taxable years beginning on or after July 1, 2007, or do you want the changes made by this draft and the credit created in 2005 Wisconsin Act 361 to apply to taxable years beginning on or after January 1, 2007?

Joseph T. Kreye
Legislative Attorney
Phone: (608) 266-2263
E-mail: joseph.kreye@legis.wisconsin.gov

Kreye, Joseph

From: Oakleaf, Michael P - DOR
Sent: Tuesday, December 05, 2006 1:56 PM
To: Kreye, Joseph
Cc: Boldt, Rebecca A - DOR
Subject: LRB 0722/1 Enterprise Zones Jobs Credit

Attachments: RP-mo Enterprise Zone.doc

Joe,

As per our phone conversation, here is the correct version of the proposal for statutory changes to the Enterprise Zones Jobs Credit. Sorry for the confusion.

If you have any questions, please feel free to contact me.

Thanks,

Mike Oakleaf



RP-mo Enterprise
Zone.doc (164...

**Legislative Proposal Summary
Wisconsin Department of Revenue
Research and Policy Division**

November 17, 2006

TITLE: ENTERPRISE ZONE JOBS CREDIT

DESCRIPTION OF CURRENT LAW AND PROBLEM

2005 Act 361 (AB 208) created a refundable enterprise zone credit. The credit has three components: (1) a payroll component based on changes in the claimant's payroll over a base year; (2) a component available only to claimants whose entire property and payroll is in the enterprise zone, which is based on the sum of the claimant's payroll and basis of property; and (3) a component based on the amount a claimant pays for training to upgrade the skills of full-time employees who work in the enterprise zone.

While it appears the statutory language intends to award credits for the creation of jobs that pay at least \$30,000, the actual language does not always accomplish this in a way that is fair or consistent. In particular, the language awards higher credits for increasing the pay of current employees than for creating new jobs. Moreover, under certain circumstances, credits could be awarded for the creation of jobs paying well below \$30,000. Attachment A provides examples that show these unintended effects.

Also, the purpose for the supplemental credit for businesses operating exclusively in the enterprise zone is unclear. There does not appear to be any reasonable policy justification for the credit, as it is not related to the creation of jobs or improvement of job-related skills. In addition, it discriminates against businesses that have locations outside of the zone by denying them the credit which is available to businesses wholly located in the zone.

In addition, the supplemental credit for training expenses is very broad. In particular, the statute does not require that the training be job related.

Finally, the Department of Commerce has requested statutory language that will align their administrative practices for the Enterprise Zones Jobs Credit with those for other credits that they administer. This language will also clarify what information will be provided by Commerce to the Department of Revenue and to the claimant.

RECOMMENDATION FOR ACTION

1. Change the formula for the payroll credit so that it gives credits for the creation of high-paying jobs in the enterprise zone and to ensure consistent treatment of all claimants.
2. Repeal the supplemental credit based on payroll and property.
3. Clarify the definition of creditable training costs.
4. Add statutory language that will align Department of Commerce practices for this credit with other similar credits.

ADMINISTRATIVE IMPACT

1. Minimal or no change from current law.
2. Minimal or no change from current law.

3. Will improve administration of the credit by clarifying the definition of creditable training costs.
4. Will allow for efficient administration of the credit.

FAIRNESS/TAX EQUITY

1. Improving the formula will increase tax equity by allowing consistent treatment of all claimants and will ensure that credits are awarded for the creation of well-paying jobs.
2. This change will remove a discriminatory aspect of the law.
3. Clarifying the definition of training will ensure that all claimants know what costs are creditable and will allow Department auditors to treat all claimants the same.
4. Business will know the maximum value of the credit available to them.

IMPACT ON ECONOMIC DEVELOPMENT

1. Changing the formula for the jobs credit will ensure that companies that create high-paying jobs receive the credit.
2. None, as the credit was not tied to the creation of jobs or the improvement of job-related skills.
3. Clarifying the definition of creditable training costs will help guide claimants in crafting training programs that will be eligible for the credit.
4. Knowing the maximum credit available ahead of time will allow businesses to better plan their zone activities.

FISCAL EFFECT

The fiscal effect cannot be determined, but it is anticipated that it will increase revenue relative to the current law.

DRAFTING INSTRUCTIONS

1. **Change the formula for the payroll credit so that it gives credits for the creation of high-paying jobs in the enterprise zone and to ensure consistent treatment of all claimants.**

Amend the definition of zone payroll to explicitly limit it to full-time employees. Change the formula so that credit is only given for the creation of full-time jobs with wages (as defined in IRC section 3306(b)) that exceed \$30,000. Calculate the credit as the difference between (a) the average zone payroll for full-time employees whose wages are more than \$30,000 in the tax year and (b) \$30,000 multiplied by the lesser of (1) the difference in the number of full-time zone employees in the tax year and the number of zone employees in the base year or (2) the difference in the number of full-time state employees in the tax year and the number of state employees in the base year. The product is then multiplied by seven percent.

Re-number s. 71.07(3w)(a)6 to s. 71.07(3w)(a)7.

Create s. 71.07(3w)(a)6 to read as follows:

6. "Wages" has the meaning given in Internal Revenue Code section 3306(b), determined without regard to any dollar limitations.

Amend s. 71.07(3w)(a)7 as renumbered to read as follows:

7. "Zone payroll" means the amount of state payroll that is attributable to wages paid to ~~individuals~~ full-time employees for services that are performed in ~~aan~~ an enterprise zone. "Zone payroll" does not include the amount of wages paid to any individual that exceeds \$100,000.

Repeal and recreate s 71.07(3w)(b) to read as follows:

- (b) *Filing claims; payroll.* Subject to the limitations provided in this subsection and s. 560.799, a business that is certified under s. 560.799 (5) may claim as a credit against the tax imposed under ss. 71.02 or 71.08 an amount calculated as follows:
 1. Determine the amount that is the lesser of:
 - a. The number of full-time employees whose annual wages are greater than \$30,000 that the claimant employed in the enterprise zone in the taxable year minus the number of full-time employees whose annual wages were greater than \$30,000 that the claimant employed in the area that comprises the enterprise zone in the base year.
 - b. The number of full-time employees whose annual wages are greater than \$30,000 that the claimant employed in the state in the taxable year minus the number of full-time employees whose annual wages were greater than \$30,000 that the claimant employed in the state in the base year.
 2. Determine the claimant's average zone payroll by dividing total wages for full-time zone employees whose annual wages are greater than \$30,000 in the taxable year by the number of full-time employees whose annual wages are greater than \$30,000 that the claimant employed in the zone in the taxable year.
 3. Subtract \$30,000 from the amount determined under subsection (b)2.
 4. Multiply the amount determined under subsection (b)3 by the amount determined under subsection (b)1.
 5. Multiply the amount determined under subsection (b)4 by 7 percent.

Renumber s. 71.28(3w)(a)6 to s. 71.28(3w)(a)7.

Create s.71.28(3w)(a)6 to read as follows:

6. "Wages" has the meaning given in Internal Revenue Code section 3306(b), determined without regard to any dollar limitations.

Amend s. 71.28(3w)(a)7 as renumbered to read as follows:

7. "Zone payroll" means the amount of state payroll that is attributable to wages paid to ~~individuals~~ full-time employees for services that are performed in ~~aan~~ an enterprise zone. "Zone payroll" does not include the amount of wages paid to any individual that exceeds \$100,000.

Repeal and recreate s. 71.28(3w)(b) to read as follows:

- (b) *Filing claims; payroll.* Subject to the limitations provided in this subsection and s. 560.799, a business that is certified under s. 560.799 (5) may claim as a credit against the tax imposed under s. 71.23 an amount calculated as follows:

1. Determine the amount that is the lesser of:
 - a. The number of full-time employees whose annual wages are greater than \$30,000 that the claimant employed in the enterprise zone in the taxable year minus the number of full-time employees whose annual wages were greater than \$30,000 that the claimant employed in the area that comprises the enterprise zone in the base year.
 - b. The number of full-time employees whose annual wages are greater than \$30,000 that the claimant employed in the state in the taxable year minus the number of full-time employees whose annual wages were greater than \$30,000 that the claimant employed in the state in the base year.
2. Determine the claimant's average zone payroll by dividing total wages for full-time zone employees whose annual wages are greater than \$30,000 in the taxable year by the number of full-time employees whose annual wages are greater than \$30,000 that the claimant employed in the zone in the taxable year.
3. Subtract \$30,000 from the amount determined under subsection (b)2.
4. Multiply the amount determined under subsection (b)3 by the amount determined under subsection (b)1.
5. Multiply the amount determined under subsection (b)4 by 7 percent.

ReNUMBER s. 71.47(3w)(a)6 to s. 71.47(3w)(a)7.

Create s.71.47(3w)(a)6 to read as follows:

6. "Wages" has the meaning given in Internal Revenue Code section 3306(b), determined without regard to any dollar limitations.

Amend s. 71.47(3w)(a)7 as renumbered to read as follows:

7. "Zone payroll" means the amount of state payroll that is attributable to wages paid to ~~individuals~~ full-time employees for services that are performed in ~~aan~~ an enterprise zone. "Zone payroll" does not include the amount of wages paid to any individual that exceeds \$100,000.

Repeal and recreate s. 71.47(3w)(b) to read as follows:

- (b) *Filing claims; payroll.* Subject to the limitations provided in this subsection and s. 560.799, a business that is certified under s. 560.799 (5) may claim as a credit against the tax imposed under s. 71.43 an amount calculated as follows:

1. Determine the amount that is the lesser of:
 - a. The number of full-time employees whose annual wages are greater than \$30,000 that the claimant employed in the enterprise zone in the taxable year minus the

number of full-time employees whose annual wages were greater than \$30,000 that the claimant employed in the area that comprises the enterprise zone in the base year.

b. The number of full-time employees whose annual wages are greater than \$30,000 that the claimant employed in the state in the taxable year minus the number of full-time employees whose annual wages were greater than \$30,000 that the claimant employed in the state in the base year.

2. Determine the claimant's average zone payroll by dividing the total wages for full-time zone employees whose annual wages are greater than \$30,000 in the taxable year by the number of full-time employees whose annual wages are greater than \$30,000 that the claimant employed in the zone in the taxable year.
3. Subtract \$30,000 from the amount determined under subsection (b)2.
4. Multiply the amount determined under subsection (b)3 by the amount determined under subsection (b)1.
5. Multiply the amount determined under subsection (b)4 by 7 percent.

2. Repeal the supplemental credit based on payroll and property, and

3. Better define what constitutes creditable training.

Amend s. 71.07(3w)(bm) to read as follows:

(bm) Filing supplemental claims. In addition to the credit under par. (b) and subject to the *limitations* provided in this subsection and s. 560.799, a claimant may claim as a credit against the tax imposed under s. 71.02 or 71.08 ~~an amount equal to all of the following:~~

~~3. If all of the claimant's payroll is zone payroll and all of the claimant's business-related property is located in a enterprise zone, the amount obtained by multiplying 20 percent of the sum of the claimant's zone payroll in the taxable year and the adjusted basis of the claimant's property at the time that the property is first placed in service in the enterprise zone by 6.5 percent.~~

~~4. The the amount the claimant paid in the taxable year to upgrade or improve the job-related skills of any of the claimant's full-time employees, to train any of the claimant's full-time employees on the use of job-related new technologies, or to train provide job-related training to any full-time employee whose employment with the claimant represents the employee's first full-time job. This subdivision does not apply to employees who do not work in aan enterprise zone.~~

Amend s. 71.28(3w)(bm) to read as follows:

(bm) Filing supplemental claims. In addition to the credit under par. (b) and subject to the limitations provided in this subsection and s. 560.799, a claimant may claim as a credit against the tax imposed under s. 71.23 ~~an amount equal to all of the following:~~

~~3. If all of the claimant's payroll is zone payroll and all of the claimant's business-related property is located in a enterprise zone, the amount obtained by multiplying 20 percent of the sum of the claimant's zone payroll in the taxable year and~~

① cons. rem. & amend 71.07(3w)(bm)(intro) and 4.
② rep 71.07(3w)(bm) 3.

~~the adjusted basis of the claimant's property at the time that the property is first placed in service in the enterprise zone by 6.5 percent.~~

~~4. The the amount the claimant paid in the taxable year to upgrade or improve the job-related skills of any of the claimant's full-time employees, to train any of the claimant's full-time employees on the use of job-related new technologies, or to ~~train~~ provide job-related training to any full-time employee whose employment with the claimant represents the employee's first full-time job. This subdivision does not apply to employees who do not work in aan enterprise zone.~~

Amend s. 71.47(3w)(bm) to read as follows:

(bm) Filing supplemental claims. In addition to the credit under par. (b) and subject to the limitations provided in this subsection and s. 560.799, a claimant may claim as a credit against the tax imposed under s. 71.43 ~~an amount equal to all of the following:~~

~~3. If all of the claimant's payroll is zone payroll and all of the claimant's business-related property is located in a enterprise zone, the amount obtained by multiplying 20 percent of the sum of the claimant's zone payroll in the taxable year and the adjusted basis of the claimant's property at the time that the property is first placed in service in the enterprise zone by 6.5 percent.~~

~~4. The the amount the claimant paid in the taxable year to upgrade or improve the job-related skills of any of the claimant's full-time employees, to train any of the claimant's full-time employees on the use of job-related new technologies, or to ~~train~~ provide job-related training to any full-time employee whose employment with the claimant represents the employee's first full-time job. This subdivision does not apply to employees who do not work in aan enterprise zone.~~

4. Add statutory language that will align Department of Commerce practices for this credit with other similar credits.

Amend s. 71.07 (3w)(d) and s. 71.47 (3w)(d) to read as follows:

(d) Administration. Section 71.28 (4) (g) and (h), as it applies to the credit under s. 71.28 (4), applies to the credit under this subsection. Claimants shall include with their returns a copy of the department of commerce's verification of their expenses.

Amend s. 71.28 (3w)(d) to read as follows:

(d) Administration. Subsection (4) (g) and (h), as it applies to the credit under sub. (4), applies to the credit under this subsection. Claimants shall include with their returns a copy of the department of commerce's verification of their expenses.

Create s. 560.799 (6)(e) and (f) to read as follows:

(e) The department shall determine the maximum amount of tax credits under ss. 71.07 (3w), 71.28 (3w), and 71.47 (3w) that a certified business may claim. The department of commerce shall notify the department of revenue of this limit.

- (f) The department shall annually verify information submitted to the department under ss. 71.07 (3w), 71.28 (3w), or 71.47 (3w).

EFFECTIVE DATE AND/OR INITIAL APPLICABILITY

Taxable years beginning on or after July 1, 2007.

INTERESTED/AFFECTED PARTIES

Department of Commerce, taxpayers interested in establishing or expanding businesses in enterprise zones.

DOR CONTACT PERSON

Michael Oakleaf, (608) 261-5173
Michael.oakleaf@dor.state.wi.us

MO:skr

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Attachment A: Examples of Unintended Credit Effects for Similar Business Behavior

As shown below, two businesses that increase their payroll by approximately the same amount would receive very different credits under the current formula, with the business that creates no new jobs receiving the larger credit. Business A increases its payroll by \$70,886 to employ two additional workers with a payroll cost of \$35,443 each, and receives a credit of \$762. Business B creates no new jobs but increases its payroll by \$70,720 to give raises to existing employees, and receives a credit of \$4,950, seven times larger than the credit given to Business A.

Business A:

	Number of Full-time Employees	Average Wages	Total Payroll
Base Year	100	31,200.00	\$3,120,000
Taxable Year	102	31,283.30	\$3,190,886
Difference	2		\$70,886
Multiply jobs created x 30,000			60,000
Subtract payroll difference			10,886
Credit			\$762

Business B:

	Number of Full-time Employees	Average Wages	Total Payroll
Base Year	100	31,200.00	\$3,120,000
Taxable Year	100	31,283.30	\$3,190,720
Difference	0		\$70,720
Multiply jobs x 30,000			0
Subtract payroll difference			70,720
Credit			\$4,950

The credit is also not limited to companies who pay high wages to their workers. For example, as shown below a company with 100 full-time employees could conceivably receive a credit of \$3,640 if it creates no new jobs, its base wage is the minimum wage, and it increases that wage only slightly.

	Number of Full-time Employees	Average Wages*	Total Payroll
Base Year	100	\$16,006	\$1,600,560
Taxable Year	100	16,708	\$1,670,760
Difference	0		70,200
Multiply jobs by 30,000			0
Subtract payroll difference			70,200
Credit			\$4,914

Note: Wages in the base year are minimum wage (\$5.70 an hour) plus benefits of 35 percent, times 2080 hours. In the taxable year, the hourly wage is increased to \$5.95 while the other factors stay the same.

Attachment B: Example of Fiscal Effects Under Current Law and Proposal

1. Only claimants that create high-paying jobs would be eligible to claim the credit:

Base Year		Taxable Year		Credit Available	
Jobs	Average Wage	Jobs	Average Wage	Current Law	Proposal
100	\$31,200	102	\$31,283	\$762	\$180
100	31,200	100	31,907	4,950	0
100	11,856	100	12,376	3,640	0
0	0	15	31,200	1,260	1,260
10	24,960	25	31,200	5,628	1,260

In the first two cases, a credit is provided only for the creation of additional jobs; no credit is provided for increasing the average payroll of existing jobs. In the third case, no credit is provided unless new jobs pay at least \$14.43 per hour (including benefits) equal to \$30,000 annually. In the final two cases, the same credit is provided for the creation of 15 new jobs irrespective of the number of jobs existing in the base year.

Kreye, Joseph

From: Easton, Darren - DOA
Sent: Tuesday, December 05, 2006 3:25 PM
To: Kreye, Joseph
Subject: RE: LRB 0722/1 Enterprise Zones Jobs Credit

I'm on board. Sorry about the mix up.

Darren

From: Kreye, Joseph [<mailto:Joseph.Kreye@legis.wisconsin.gov>]
Sent: Tuesday, December 05, 2006 3:22 PM
To: Easton, Darren - DOA
Subject: FW: LRB 0722/1 Enterprise Zones Jobs Credit

Hi Darren,

I received the instructions below from Mike Oakleaf at DOR related to 07-0722/1. I believe they're substantially different than the instructions I received originally. I just want to know if you're on board with these changes before I redraft the proposal. Thanks.

Joe

Joseph T. Kreye

Senior Legislative Attorney

Legislative Reference Bureau

(608) 266-2263

From: Oakleaf, Michael P - DOR
Sent: Tuesday, December 05, 2006 1:56 PM
To: Kreye, Joseph
Cc: Boldt, Rebecca A - DOR
Subject: LRB 0722/1 Enterprise Zones Jobs Credit

Joe,

As per our phone conversation, here is the correct version of the proposal for statutory changes to the Enterprise Zones Jobs Credit. Sorry for the confusion.

12/05/2006

If you have any questions, please feel free to contact me.

Thanks,

Mike Oakleaf

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