

Fiscal Estimate - 2007 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 07-0203/1	Introduction Number AB-0328
Description Adding payments to related entities to federal taxable income for state income tax and franchise tax purposes	
Fiscal Effect State: <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input checked="checked" type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Increase Existing Revenues <input type="checkbox"/> Decrease Existing Revenues <input checked="checked" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="checked" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs	
Local: <input checked="checked" type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate <div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> 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 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%; border-left: 1px solid black; padding-left: 5px;"> 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>	
Fund Sources Affected <input checked="checked" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	Affected Ch. 20 Appropriations
Agency/Prepared By DOR/ Michael Oakleaf (608) 261-5173	Authorized Signature Rebecca Boldt (608) 266-6785
Date 6/7/2007	

Fiscal Estimate Narratives

DOR 6/8/2007

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Description Adding payments to related entities to federal taxable income for state income tax and franchise tax purposes					

Assumptions Used in Arriving at Fiscal Estimate

For state income and franchise tax purposes, this bill requires a taxpayer to add to the taxpayer's federal income any amount that the taxpayer deducted or excluded under the Internal Revenue Code for management and service fees, interest expenses and costs, intangible expenses and costs, and any other expenses and costs directly or indirectly paid, accrued, or incurred to, or in connection directly or indirectly with one or more related entities. The addition to income is not required if all of the following apply: 1) the transaction to which the expenses and costs apply did not have as its principal purpose tax avoidance, 2) the related entity to whom the taxpayer paid the expenses or costs paid, accrued, or incurred such amounts to a person who is not a related entity, and 3) the related entity was subject to tax on its net income in this state or any state or foreign country, and a measure of the tax included the expenses or costs received from the taxpayer.

The bill authorizes the department to allow the tax consequences of a transaction if the taxpayer demonstrates that the transaction had a valid, good faith business purpose other than tax avoidance, that the business purpose is commensurate with the transaction's tax benefit, and that the transaction had economic substance apart from the asserted tax benefit.

Fiscal effect

Data are not available to estimate the fiscal effect of disallowing these deductions. This is because the data do not distinguish between those deductions that are between related parties and those that are between unrelated parties. The Department of Revenue believes the fiscal effect would be substantial.

As illustration, based on the corporate tax reporting sample compiled by the Department for tax year 2003, if 1% of deductions appearing on the federal income tax return under "rent," "interest" and "other deductions" were payments to related parties and therefore disallowed as a result of this bill, corporate tax revenues would increase by an estimated \$7.5 million annually. If 10% of those deductions were disallowed, corporate tax revenue would increase by an estimated \$81 million annually. If 25% of those deductions were disallowed, corporate tax revenue would increase by an estimated \$222 million annually. Other types of deductions not included in these estimates would also be disallowed as a result of this bill and would result in an increase in revenue.

Because it is unknown what percentage of deductions are for payments to related parties, these estimates should be considered speculative.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

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Description Adding payments to related entities to federal taxable income for state income tax and franchise tax purposes			
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		Authorized Signature	
DOR/ Michael Oakleaf (608) 261-5173		Rebecca Boldt (608) 266-6785	
		Date	
		6/7/2007	