Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2007 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **07-2419/1**	Introduction Number **SB-347**

Description
Excluding from taxable income gains from a Wisconsin business

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

☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	**Authorized Signature**	**Date**
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Fiscal Estimate Narratives

DOR 12/19/2007

LRB Number **07-2419/1**	Introduction Number **SB-347**	Estimate Type **Original**
Description Excluding from taxable income gains from a Wisconsin business		

Assumptions Used in Arriving at Fiscal Estimate

Under current Wisconsin law, individuals may exclude 60% of net long-term capital gains. Under this bill, an individual; an individual partner or member of a partnership, limited liability company, or limited liability partnership; or an individual shareholder of a tax-option corporation may exclude the capital gain, not to exceed $10 million, realized from the sale of any asset held more than one year if the claimant meets certain requirements. The requirements are: 1) immediately deposit the gain in a segregated account in a financial institution, 2) invest all of the proceeds in a Wisconsin business, as defined in the bill, within 180 days, and 3) notify the Department of Revenue (DOR) on a form prepared by DOR that the claimant will not declare the gain. The exemption is first applicable for tax year 2008. The basis of the replacement asset would be calculated by subtracting the excluded gain from the cost of the replacement asset.

There is inherent variability in capital gain income and investment decisions at the individual level. Additionally a number of interactions with other tax incentives may impact the fiscal effect. Some taxpayers with capital gains are otherwise able to reduce their taxable income to the point that additional deductions may not be worthwhile. Additionally, federal tax rules will have a non-negligible effect on taxpayers' investment decisions. Since the extent to which taxpayers will take advantage of this exemption is not known, the revenue loss is inestimable.

However, using the 2005 Individual Income Tax Sample, it is estimated that approximately $170 million of individual income tax liability was attributable to the non-excludable portion of long term capital gains in taxable year 2005. If it is assumed that taxpayers with Wisconsin income or long-term capital gains of less than $150,000 are unlikely to take advantage of this exemption for reasons listed above, the pool of potential participants is approximately 5,000 individuals. Those individuals reported $3.3 billion of long-term capital gains and paid $87 million in tax on the non-excludable gain. As an illustration, if it is assumed that half of those individuals invest their gains in Wisconsin businesses, the pool of likely investors is approximately 2,500 individuals and the potential fiscal effect of the bill is $44 million annually.

Long-Range Fiscal Implications

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Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

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Description
Excluding from taxable income gains from a Wisconsin business

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, ets.)

	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	$SeeText	$

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