

Fiscal Estimate Narratives

DOR 4/20/2010

LRB Number	09-4391/1	Introduction Number	AB-0941	Estimate Type	Original
Description Creating an income and franchise tax credit for businesses that contribute to a scholarship-granting organization or to an educational improvement organization and a nonrefundable individual income tax credit for education expenses paid for dependents who attend elementary and secondary schools					

Assumptions Used in Arriving at Fiscal Estimate

The bill allows two nonrefundable credits – the educational improvement credit and the education expenses credit.

The educational improvement credit is equal to 75% of any contribution made by the claimant in the taxable year to an educational improvement organization or to a scholarship-granting organization. An educational improvement organization is a nonprofit entity that contributes at least 80% of its annual receipts as grants to public schools for innovative educational programs. A scholarship granting organization is a nonprofit entity that contributes at least 80% of its annual receipts to scholarship programs for pupils in grades kindergarten to 12 at private or public schools in this state. The maximum credit a claimant may receive in a taxable year is \$200,000. The maximum amount of credit that all claimants may receive in a taxable year is \$12 million. In addition, the maximum credit amount that may be claimed for all years for contributions to a scholarship-granting organization is \$30 million and \$20 million for all taxable years for contributions to educational improvement organizations. Unused credit may be carried over and offset against tax for up to 15 years. No claimant may claim a credit unless the claimant first files an application with the department. The department shall allocate the credits in the order in which the applications are received.

The education expenses credit is equal to the amount paid, up to a maximum of \$2,500 (\$5,000 if married filing jointly), by the claimant for education supplies for the claimant's dependent related to the dependent's curricular activities and attendance at a private school, charter school, or public school. Nonresidents and part-year residents must prorate the credit on the basis of Wisconsin adjusted gross income to federal adjusted gross income.

Fiscal Estimate

Educational Improvement Credit - Data do not exist to definitively estimate the fiscal effect of the credit. Other states have similar credits. For example, Florida allows a similar credit for corporate contributions to scholarship-granting organizations and awards in excess of \$80 million in credit per year. Pennsylvania has a credit similar to the credit for contributions to educational improvement organizations and awards in excess of \$20 million per year in credits. Therefore, based on the experience of other states, it is anticipated that the maximum annual amount of credit of \$12 million will be claimed each year until the maximum amount for all years for each component of the credit is reached (\$30 million for contributions to scholarship-granting organizations and \$20 million for contributions to educational improvement organizations). The fiscal effect would be reduced to the extent that the entities making contributions do not have sufficient tax liability to use the entire credit in the year claimed.

Education Expenses Credit - According to data from the Department of Public Instruction, in school year 2009-10 there were approximately 127,000 students (K-12) enrolled in private schools in Wisconsin. According to data from the National Center for Education Statistics, the average annual tuition for private school students (K-12) in school year 2007-08 was \$10,045 per student. Therefore it can be assumed that families will claim the maximum amount, as average private school tuition is greater than the maximum credit. The US Census Bureau estimates that the average family size for families with members under 18 is four. Assuming that these families have two adults and two children, the number of families with children attending private schools in Wisconsin is estimated to be 63,500 (127,000/2). Based on a review of tax year 2007 individual tax returns, the average tax liability for taxpayers claiming dependents was approximately \$3,200. Therefore, it is estimated that the credit for education expenses would result in used credits of \$203.2 million annually (63,500 x \$3,200). The net annual fiscal effect, after accounting for adding back the credit as income as required under the bill, is estimated to be \$190.2 million [\$203.2 million - (\$203.2 million x .0641 (average gross tax rate))]. The fiscal effect would be increased to the extent that claimants with dependents in public schools claim the credit for books and other educational materials or supplies.

The combined annual fiscal effect from the educational improvement credit and the education expenses credit is estimated to be \$202.2 million annually (\$12.0 million + \$190.2 million).

Administrative Expenses - The Department would require 1.0 FTE Revenue Agent to review applications for the scholarship-granting organization and educational improvement organization credits, to administer the annual cap on the credits, and to approve and deny credits. The salary and fringe benefits for this position would be \$61,240. In addition, the Department would incur additional costs for printing and mailing of \$100 per year. Total additional annual administrative expenses are \$61,340.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description			
Creating an income and franchise tax credit for businesses that contribute to a scholarship-granting organization or to an educational improvement organization and a nonrefundable individual income tax credit for education expenses paid for dependents who attend elementary and secondary schools			
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	\$61,240		\$
(FTE Position Changes)	(1.0 FTE)		
State Operations - Other Costs	100		
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$61,340		\$
B. State Costs by Source of Funds			
GPR	61,340		
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	\$	\$-202,200,000	
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$	\$-202,200,000	
NET ANNUALIZED FISCAL IMPACT			
	State	Local	
NET CHANGE IN COSTS	\$61,340	\$	
NET CHANGE IN REVENUE	\$-202,200,000	\$	
Agency/Prepared By		Authorized Signature	Date
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