

Fiscal Estimate Narratives

DOR 12/8/2009

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|---|------------------|---------------------|---------------|---------------|-----------------|
| LRB Number | 09-3617/4 | Introduction Number | SB-409 | Estimate Type | Original |
| Description A postsecondary education tax credit for businesses; increasing annual limits on angel investment tax credits; awarding grants to the WiSys Technology Foundation, Inc.; business plan competitions and an emerging technology center in the University of Wisconsin System; rural outsourcing grants; requiring the Department of Commerce to award grants to a high-technology business development corporation and grants for converting manufacturing facilities; increasing funding for certain economic development programs; a pilot program providing microloans for the creation of new businesses; increasing funding for certain technical college training program grants; providing an exemption from emergency rule procedures; granting rule-making authority; and making appropriations | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

The bill creates a non-refundable post-secondary education income and franchise tax credit for businesses that pay tuition for an employee to attend a university, college, or technical college. The credit is equal to 25% of the tuition paid by a business for an employee to attend school (or 30% if the employee is enrolled in a course of instruction that relates to a projected worker shortage in this state), if the employee is enrolled in a course of instruction and is eligible for a grant from the Federal Pell Grant Program. The taxpayer claims the total amount of the tuition paid for the employee for the taxable year in which the individual graduates from the course of instruction. Unused credit amounts may be carried forward for 15 years.

Under current law, the total amount of all bona fide angel investment credits that may be claimed in a calendar year beginning after 2007 but before 2011 is \$5.5 million and the total amount that may be claimed in any calendar year beginning after 2010 is \$18 million plus an additional \$250,000 for investments in nanotechnology businesses. Under the bill, the total amount of all bona fide angel investment credits that may be claimed in 2010 is \$6.5 million and the total amount that may be claimed in a calendar year beginning after 2010 is \$20 million plus an additional \$250,000 for investments in nanotechnology businesses. The total aggregate amount of angel investment credits that may be certified for all years is \$47.5 million. Angel investment credits may only be claimed by individuals. Investments must be held by the claimant for three years. In calendar year 2008, of the \$5.5 million in angel investment credits that were available, a total of \$2.2 million was certified.

Under current law, the total amount of all early stage seed investment credits that may be claimed in a calendar year beginning after 2007 but before 2011 is \$6 million and the total amount that may be claimed in any calendar year beginning after 2010 is \$18.5 million plus an additional \$250,000 for investments in nanotechnology businesses. Under the bill, the total amount of all early stage seed investment credits that may be claimed in 2010 is \$8 million, and the total amount that may be claimed in any calendar year beginning after 2010 is \$20.5 million plus an additional \$250,000 for investments in nanotechnology businesses. Early stage seed investment credits may be claimed by individuals, corporations, and insurance companies. Investments must be held by the claimant for three years. In calendar year 2008, of the \$6.0 million in early stage seed investment credits that were available, a total of \$4.3 million was certified.

Fiscal Estimate

This fiscal estimate describes the effect of the provisions of the bill related to the post-secondary education credit, the angel investment credit, and the early stage seed tax credit.

Post-Secondary Education Tax Credit - Based on information from the University of Wisconsin System, the Wisconsin Technical College System and the U.S. Office of Management and Budget for federal fiscal year 2009, it is estimated that employers in Wisconsin provide approximately \$54.0 million annually in tuition support for employees in degree-granting programs. Based on information from the UW System Administration, approximately 17% of the 170,000 students in the UW System were eligible for Pell Grants in the 2006-07 academic year. If it is assumed that 1) the employer educational assistance currently provided to employees is for undergraduate study only, and 2) employer-provided educational assistance remains constant across income levels of the employees, then the proposed credit could result in credit claims of approximately \$2.3 million per year ($\$54.0 \text{ million} \times 17\% \times 25\%$). If all of the assistance is provided for students who are enrolled in a course of instruction that relates to a projected worker shortage in the

state, then the proposed credit could result in credit claims of approximately \$2.8 million per year ($\$54.0 \text{ million} \times 17\% \times 30\%$). Based on Department data, approximately 75% of all credits claimed in a tax year are actually used to offset claimants' tax liability. Therefore, the fiscal effect would be to reduce revenues by an estimated \$430,000 to \$525,000 in fiscal year 2010 and an estimated \$1.7 million to \$2.1 million in fiscal years 2011 and after. However, to the extent that 1) data are not available to identify employer assistance by level of study or to determine whether the assistance is for coursework relating to a projected worker shortage, 2) the amount of employer-provided educational assistance varies by different academic and income levels of the employees, and 3) the percentage of students who are eligible for Pell Grants will fluctuate due to economic conditions, the fiscal estimate cannot be definitively determined.

Angel Investment Credit - Credit claims could increase under the bill by \$1 million in fiscal year 2011 and \$2 million in calendar year 2012 and thereafter until the aggregate cap of \$47.5 million for all years is reached. Based on a review of returns for taxpayers who claimed the angel investment credit, 90% of the amount claimed was used to offset tax liability. As such, the increased allowable amounts could reduce revenue by as much as \$900,000 ($\$1 \text{ million} \times 90\%$) in fiscal year 2011 and \$1.8 million ($\$2.0 \text{ million} \times 90\%$) in fiscal year 2012 and after until the aggregate cap of \$47.5 million for all years is reached.

Early Stage Seed Investment Credit - Credit claims could increase under the bill by \$2 million in fiscal year 2011 and thereafter. Based on a review of returns for taxpayers who claimed early stage seed credits in 2005, 95 percent of the amounts claimed were used in the year claimed to offset tax liability. As such, the increased aggregate allowable amounts for the early stage seed credit could reduce revenue by as much as \$1.9 million ($\$2.0 \text{ million} \times 95\%$) in fiscal year 2011 and after.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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| 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 | Date |

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