Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2009 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **09-0405/1**	Introduction Number **AB-0184**

Description
Increasing expense deductions for income and franchise tax purposes

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 4/10/2009

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Description Increasing expense deductions for income and franchise tax purposes		

Assumptions Used in Arriving at Fiscal Estimate

Under current federal law, the maximum amount that a business may claim under Section 179 as an expense deduction for acquiring qualified assets is $250,000. The deduction is phased out on a dollar-for-dollar basis if the cost of qualified property acquired in the year exceeds $800,000.

Under current Wisconsin law, the allowable amount of section 179 expense depends on whether the property is used in farming by a person actively engaged in farming. For persons not engaged in farming, the maximum Section 179 expense is $25,000 and the deduction is phased out for qualified property over $200,000. For persons actively engaged in farming, the maximum Section 179 deduction is $115,000 and the deduction is phased out for qualified property over $460,000.

This bill increases the Wisconsin expense deduction limit to $50,000 for property that is not used in farming and that is acquired and placed in service in taxable years beginning on or after January 1, 2008.

The entire cost of acquiring certain depreciable property can be claimed by a business as an expense in the year it is acquired if it meets the requirements of Section 179 as adopted by Wisconsin. If the amount spent to acquire the assets exceeds the limit for Section 179 expensing, the business can claim an equal portion of the excess expense as depreciation over a specified period of years depending on the type of asset acquired. The total amount that is deducted from income by the business for the cost of acquiring the asset is the same in either case, the only difference is the tax period into which the deductions fall.

FISCAL ESTIMATE

By increasing the accelerated expensing under Section 179, the bill will reduce revenue in the year when the business claims the eligible expense but will also result in an offsetting increase in revenue in subsequent years as the same business claims a lower depreciation expense.

Based on samples of tax year 2005 returns for both individuals and corporations, the bill would result in a revenue loss of an estimated $7.3 million in FY 2010, $1.8 million in FY 2011, and $700,000 in FY 2012.

The FY 2010 fiscal effect assumes affected entities will amend their 2008 returns. Therefore, the FY 2010 fiscal effect reflects the impact of tax years 2008, 2009, and part of tax year 2010.

Long-Range Fiscal Implications

To the extent that over time the reduced revenue effect of higher expense deductions will be offset by increased revenue from lower depreciation deductions, the net fiscal effect will be a revenue loss of $100,000 in FY 2013 and minimal thereafter.

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Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

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Description
Increasing expense deductions for income 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, 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	$See Text	$

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