Fiscal Estimate - 2009 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **09-2024/2**	Introduction Number **AB-0294**

Description
A lifelong learning accounts program and creating income tax modifications and an income tax credit for contributions and withdrawals related to lifelong learning accounts, providing an exemption from rule-making procedures, and requiring the exercise of rule-making authority

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 1/6/2010

LRB Number **09-2024/2**	Introduction Number **AB-0294**	Estimate Type **Original**
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Assumptions Used in Arriving at Fiscal Estimate

Under current law, an employer who provides educational assistance, including tuition reimbursement or direct payment of tuition to the educational institution, may deduct the cost of that assistance from gross taxable income. Also under current law, up to $5,250 annually of employer-provided assistance provided to an employee may be excluded from the taxable wages of the employee. The employee would have to report and pay tax on any portion of employer-provided educational assistance that exceeds $5,250 annually.

Additionally, under current law a taxpayer may deduct up to $5,114 (per student) annually of amounts paid to attend a Wisconsin postsecondary educational institution for tuition and fees for the taxpayer, the taxpayer's spouse, and dependents. The subtraction is limited if federal income exceeds certain amounts.

Under the bill, an employer may obtain approval from the Department of Workforce Development for the establishment of lifetime learning accounts for employees. An employee may make contributions to the account and the employer may make matching contributions. The combined contributions of the employer and employee may not exceed $5,000 annually. No further contributions can be made to an account that has a balance of more than $25,000.

The employee may claim a subtraction on the Wisconsin income tax return for the employee's and employer's contribution during the year. The employer may claim a nonrefundable credit for 50% of the employer contribution to the account paid during the year. Credit may not be claimed on contributions in excess of $1,000 per employee, and the maximum credit that may be claimed by the claimant for all its employees in a taxable year may not exceed $50,000. Unused credit may be carried forward for up to 15 years. No credit may be claimed unless the employer makes matching contributions of at least 25% of the amount contributed annually by participating employees.

Partnerships, limited liability companies, and tax-option corporations may not claim the credit but the eligibility for, and the amount of, the credit are based on their payment of amounts. Partners, members of limited liability companies, and shareholders of tax-option corporations may claim the credit in proportion to their ownership interests.

The account must be used to pay qualified educational expenses. If used for any other purpose, employees under age 70 must include 200% of the amount withdrawn in Wisconsin income. If age 70 or over, the amount of the withdrawal must be included in income if not used to pay qualified educational expenses. "Qualified education expenses" means expenses for tuition and fees, books, equipment, and tools or supplies that may be retained by a participating employee relating to a course of instruction provided by an accredited postsecondary educational institution.

Fiscal Estimate

Data do not exist to definitively estimate the fiscal effect of the provisions of this bill. The fiscal effect will depend on the number of employers and employees that choose to participate as well as the level of contributions made by these employers and employees. The scenarios listed below are for illustrative purposes only.

Lifelong Learning Account 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 $94 million in educational assistance to employees annually. If employers convert 5% of this amount from current forms of assistance to employer contributions to lifelong learning accounts that are matched by participating employees, the result would be credit claims of $2.4 million annually ($94 million x 5% x 50%). If employers convert 10% of this amount from current forms of assistance to employer contributions to lifelong learning accounts that are matched by participating employees, the result would be credit claims of $4.7 million annually ($94 million x 10% x 50%). The fiscal effect of the lifelong learning account credit could be higher to the extent that employers convert more current employee education assistance to contributions to lifelong learning accounts and to the extent that the credit provides an incentive for new assistance beyond what is currently provided. On the other hand, the fiscal effect would be lower to the extent that employees do not make matching contributions.

Individual Tax Modifications - Under the bill, an employer may claim credit for contributions up to $1,000 per employee annually. The maximum amount that may be contributed by the employer and the employee combined is $5,000, so at the upper limits employees may contribute four times the employer contributions. Assuming that employees contribute four times the amount that employers contribute, if employers convert 5% of current educational assistance into contributions into lifelong learning accounts individual taxpayers would subtract a total of $23.5 million from taxable income ($94 million x 5% for the employer contribution plus $94 million x 5% x 4 for the employee contribution). Assuming a marginal tax rate for all individual taxpayers of 5.36% (the average marginal rate for tax year 2007), these subtractions would result in an estimated annual loss in revenue of $1.3 million ($23.5 million x 5.36%). If employers convert 10% of current educational assistance into contributions into lifelong learning accounts, individual taxpayers would subtract a total of $47 million from taxable income ($94 million x 10% for the employer contribution plus $94 million x 10% x 4 for the employee contribution) and would result in an estimated annual loss in revenue of $2.5 million ($47 million x 5.36%). However, to the extent that employees contribute a smaller share of total contributions, the revenue effect would be smaller.

An employee would also be able to subtract from gross income any gains from interest or dividends in the lifelong learning account. Revenue losses are estimated to be minimal in the first years of the program when account balances are expected to be lower. However, to the extent that balances in lifelong learning accounts grow over time, and as more employers and employees participate in the program, the revenue loss from this subtraction would also grow.

Under current law, the employee may be able to subtract from gross income the amount withdrawn from the lifelong learning account and spent on tuition. Assuming that 25% of the amount deposited in the examples above were withdrawn by the employee and spent on tuition, and assuming the employee met the income limits for the tuition subtraction, the net tax effect would range from a revenue loss of an estimated $315,000 ($23.5 million x 25% x 5.36%) to an estimated revenue loss of $630,000 ($47 million x 25%x 5.36%).

Long-Range Fiscal Implications

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

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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, 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	$

Agency/Prepared By	**Authorized Signature**	**Date**
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