Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2009 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **09-4115/1**	Introduction Number **SB-461**

Description
An income and franchise tax credit for a qualified equity investment in a qualified community development entity, providing an exemption from emergency rule 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 0
     ☐ 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 1/21/2010

LRB Number **09-4115/1**	Introduction Number **SB-461**	Estimate Type **Original**
Description An income and franchise tax credit for a qualified equity investment in a qualified community development entity, providing an exemption from emergency rule procedures, and requiring the exercise of rule-making authority		

Assumptions Used in Arriving at Fiscal Estimate

Under federal law, the New Markets Tax Credit Program permits federal taxpayers to receive a credit against federal income taxes for making investments in qualified community development entities (QCDE). The credit may be taken over seven taxable years, and is equal to 5% of the investment in each of the first three years, and 6% of the investment in each of the subsequent four years. Federal law defines a QCDE as an entity with the primary mission of serving or providing investment capital for low–income communities or low–income persons that has been certified by the secretary of the Internal Revenue Service. Maximum investment amounts are allocated to the QCDEs by the Community Development Financial Institutions Fund (CDFI) of the US Treasury Department. To date, CDFI has allocated $26 billion in equity investment authority. The last allocations were made in October, 2009. No further allocations will be made unless Congressional action is taken.

This bill creates a non-refundable Supplement to the Federal New Markets Tax Credit. The credit may be claimed against the individual income tax, corporate income and franchise tax, or the insurance premiums fees. The credit would be available to claimants who are currently eligible for the federal New Markets Tax Credit for investments made in the prior seven years, for the duration of their eligibility under the federal program. The bill authorizes the Department of Commerce (Commerce) to certify an individual who applies to Commerce, has made an investment in a QCDE, and is eligible to receive the federal New Markets Tax Credit to receive a credit against state income and franchise taxes and against license fees paid by insurers. Prior to certification, Commerce must verify that the person has made an investment in a QCDE with the primary mission of serving or providing investment capital for low–income communities or low–income persons in this state. Commerce must annually verify that the person continues to hold the investment in any year the person seeks to claim the credit. The credit may be claimed for up to seven consecutive taxable years beginning with the taxable year in which the taxpayer makes an investment in a QCDE. The amount of the credit that a taxpayer may claim is equal to the amount of the taxpayer's investment multiplied for the first three taxable years by 5%, and for the next four taxable years 6%, for a total credit of 39% of the investment amount for all years. Unused credit amounts may be carried forward and offset against tax for up to 15 years.

Fiscal Estimate

Based on information from CDFI, as of January, 2010, Wisconsin-based QCDEs had received a total of $1.078 billion in investment allocations under the New Markets Tax Credit program within the last seven years, making them available for the state supplemental credit. Of that total, $409 million has been committed to projects, leaving a total of $669 million available for investing in projects in low-income communities. However, a QCDE can serve communities in multiple states, and it is unclear how many of these Wisconsin-based QCDEs primarily serve Wisconsin low-income communities. If all of the Wisconsin-based QCDEs serve primarily Wisconsin low-income communities and assuming that investments would be made under the remaining $669 million in allocations in tax years 2010, 2011, and 2012, it is estimated that revenue would be reduced by these amounts:

FY 2010: $8.7 million;
FY 2011: $37.8 million;
FY 2012: $49.1 million;
FY 2013: $55.7 million;
FY 2014: $49.8 million;
FY 2015: $42.5 million;
FY 2016: $41.7 million;
FY 2017: $36.8 million;
FY 2018: $23.4 million; and

FY 2019: $10.0 million

The fiscal effect would be reduced to the extent that a portion of the $1.078 billion is allocated to QCDEs that do not primarily serve Wisconsin low-income communities. Similarly, there are other QCDEs that are based outside of Wisconsin that are authorized to invest in Wisconsin. The fiscal effect would be increased to the extent that these QCDEs primarily serve low-income communities in Wisconsin, and investments in the out-of-state QCDEs are made by individuals or businesses with a Wisconsin tax liability against which to claim the credit. In addition, should more allocations be made available to CDFI, the fiscal effect would be increased to the extent that QCDEs that primarily serve Wisconsin low-income communities receive allocations. To the extent that claimants do not have sufficient tax liability to use the entire credit claimed in the year it is claimed and is carried forward, the fiscal effect would be reduced in near term and increased in later years.

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	$	$

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