

Fiscal Estimate Narratives

DOR 5/25/2011

LRB Number	11-1915/1	Introduction Number	AB-0107	Estimate Type	Original
Description A property tax credit for business expansion and making an appropriation					

Assumptions Used in Arriving at Fiscal Estimate

The bill creates a new property tax credit called the "business expansion credit", beginning with property tax bills to be issued in December 2011. The proposed credit would operate as described below.

A business enterprise would be eligible for a "business expansion credit" if, during the year in which it claims the credit, it employs at least 10 more employees than it did 3 months prior to applying for the credit. The credit would equal the school property tax levied on acquired personal property and improvements to commercial or manufacturing real property if the acquisition or improvements were made as part of a business expansion. The credit would appear as a separate line on property tax bills and would reduce the amount of property taxes otherwise payable.

A qualifying business would need to apply for the credit, on a form prescribed by the Department of Revenue (DOR), with the treasurer of the county (city treasurer in the City of Milwaukee) where the property is located. The treasurers would be required to submit to the DOR all the data requested by the DOR so that the credit can be administered. Credit claims would be valid for only 2 years and would not be renewable.

On or before December 1, the DOR would be required to notify the clerk of each municipality of the estimated fair market value to be used to calculate the credit. Since the credit applies to individual real estate parcels or personal property accounts, this notice would need to identify the parcels and accounts on which the credit is to be paid. DOR would also be required to notify the clerk of the total credit payment due to the municipality.

The credit would be paid on the following 4th Monday in July to the municipality or county, as permitted under current law. The credit would be settled for with those governmental entities that levied property taxes on or before August 20, as permitted for the credits paid under current law.

The "business expansion credit" credit would be funded from a new sum sufficient general purpose revenue appropriation under section 20.835 (3) (bg).

FISCAL EFFECT

Based on data used to prepare 2010 equalized values, the total market value of new construction for commercial and manufacturing improvements in 2009 was about \$1.8 billion. Since the process of determining equalized values for personal property does not use prior year amounts, the amount of newly purchased personal property is not available. For purposes of this estimate, it is assumed that about 5% of the equalized value of personal property is property acquired in the prior year. Since the equalized value of personal property for 2010 was about \$11.9 billion, an estimated \$600 million in taxable personal property was acquired in 2009. Thus, the total equalized value of property that potentially could have qualified for the credit is estimated to be about \$2.4 billion.

The average school tax rate for 2010/11 was \$9.76 per \$1,000 of equalized value. The school property taxes levied on property potentially eligible for the credit were about \$23.4 million (\$2.4 billion X 0.00976). If all of this property qualified for the credit, and assuming that school tax rates remain constant, the total credit for the two years the credit could be paid would be \$46.8 million. However, it is highly unlikely that all of this property would have qualified for the credit. Since the DOR does not have data which would permit it to estimate the number of business entities that could qualify for the proposed credit, it is not possible to estimate the total credit payments that this bill would generate.

The amount of new property which could qualify for the credit could vary significantly from year to year, depending on economic conditions. Given that the economy was in a recession during 2009, the amount of new property that year was significantly lower than what would have occurred in a flat or expanding economy. Thus, the potential upper bound credit payments noted in the above paragraph could prove to be

low once the state's economy returns to growth.

The DOR would incur one-time costs of \$31,700 for creating the credit claim form, notifying treasurers and clerks about the new credit, answering questions about the credit, revising property tax forms to include the credit, revising the computer programs that process property tax data to include the credit, and related issues related to the credit's first year. The DOR would have ongoing costs of \$26,500 per year related to processing and auditing credit claims.

Counties and municipalities will incur one-time costs regarding adding procedures to handle the new credit claims, to print property tax bills, and to settle for the credit payments. On-going costs will be incurred related to processing new claim forms every year and ensuring that those claims that have expired are removed from tax rolls. The DOR does not have information which would permit a reasonable estimate of these local costs.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2011 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description A property tax credit for business expansion and making an appropriation		
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): Up to \$46.8 million GPR over two years for the proposed credit, and \$31,700 for creating a credit claim form, notifying local officials of the new credit, and establishing procedures for administering and auditing the credit.		
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		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$see text	\$see text
NET CHANGE IN REVENUE	\$	\$
Agency/Prepared By	Authorized Signature	Date
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