



## Fiscal Estimate Narratives

DOR 10/10/2011

LRB Number 11s0178/1	Introduction Number SSA1-SB60	Estimate Type Supplemental
<b>Description</b> a small business expansion income and franchise tax credit		

### Assumptions Used in Arriving at Fiscal Estimate

For taxable years beginning after December 31, 2011, the bill creates a nonrefundable income and franchise tax credit equal to a portion of the actual cost of improvements to real property and acquisitions of personal property by a small business if such property is subject to taxation under Chapter 70. The credit is equal to the cost of the property multiplied by one of the following:

- If the small business employs one more employee in a full-time job than in the previous taxable year, 0.002
- If the small business employs two more employees in a full-time job than in the previous taxable year, 0.004
- If the small business employs three more employees in a full-time job than in the previous taxable year, 0.006
- If the small business employs four more employees in a full-time job than in the previous taxable year, 0.008
- If the small business employs at least five more employees in a full-time job than in the previous taxable year, 0.01

A "small business" is defined as a business entity, including its affiliates, that is independently owned and operated and not dominant in its field, and that employs 25 or fewer full-time employees or that has gross annual sales of less than \$5,000,000.

Unused credits may be carried over and offset against tax for up to 15 years. The amount of the credit must be added to income. The credit is available for two consecutive years.

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 Wisconsin Economic Development Corporation must certify the business for each of the two years.

### Fiscal Estimate

Based on data used to prepare 2010 equalized values, the total market value of new construction for commercial and manufacturing improvements in 2009 was approximately \$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 qualify for the credit is estimated to be about \$2.4 billion (\$1.8 billion + \$600 million).

Based on data from the US Census Bureau, small businesses accounted for approximately 20% of wages paid to employees in Wisconsin in 2008 (the most recent year available). Assuming that small businesses accounted for a similar percentage of the value of improvements and personal property, the value of improvements and property on which the credit would be based is \$480 million (\$2.4 billion x 20%). Assuming that 20% of the credit is claimed by businesses at each of the five new employment levels (one through five new employees), the bill would result in revenue decreases of an estimated \$720,000 in FY 2012, \$3.6 million in FY 2013, and \$5.8 million in FY 2014.

### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2011 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 11s0178/1		<b>Introduction Number</b> SSA1-SB60	
<b>Description</b> a small business expansion income and franchise tax credit			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes	\$	\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>	
<b>B. State Costs by Source of Funds</b>			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)</b>			
	Increased Rev	Decreased Rev	
GPR Taxes	\$	\$	
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>	
<b>NET ANNUALIZED FISCAL IMPACT</b>			
	<u>State</u>	<u>Local</u>	
NET CHANGE IN COSTS	\$	\$	
NET CHANGE IN REVENUE	\$See Text	\$	
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
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