Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2013 Session

[X] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number 13-3911/2	Introduction Number AB-0872

Description
Reducing and increasing certain individual income tax rates and expanding the number of brackets to what existed before the enactment of 2013 Wisconsin Act 20, disregarding a taxpayer's election to include another in its combined group, disallowing certain carry-forward amounts for combined reporting purposes, repealing the income and franchise tax credit for qualified production activities income, repealing the changes made to the earned income tax credit in 2011 Wisconsin Act 32, increasing the personal exemption for certain individuals, restoring indexing provisions to the homestead tax credit, and eliminating the individual income tax exclusion for long-term capital gains other than for farm assets

Fiscal Effect

State:
[ ] No State Fiscal Effect
[ ] Indeterminate
[X] Increase Existing Appropriations
[ ] Decrease Existing Appropriations
[ ] Create New Appropriations
[X] Increase Existing Revenues
[ ] Decrease Existing Revenues
[ ] Increase Costs - May be possible to absorb within agency's budget [ ] Yes [ ] No
[ ] Decrease Costs

Local:
[X] 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 4/1/2014

LRB Number **13-3911/2**	Introduction Number **AB-0872**	Estimate Type **Original**
Description Reducing and increasing certain individual income tax rates and expanding the number of brackets to what existed before the enactment of 2013 Wisconsin Act 20, disregarding a taxpayer's election to include another in its combined group, disallowing certain carry-forward amounts for combined reporting purposes, repealing the income and franchise tax credit for qualified production activities income, repealing the changes made to the earned income tax credit in 2011 Wisconsin Act 32, increasing the personal exemption for certain individuals, restoring indexing provisions to the homestead tax credit, and eliminating the individual income tax exclusion for long-term capital gains other than for farm assets		

Assumptions Used in Arriving at Fiscal Estimate

Controlled Group Election
Under current law, a taxpayer may elect to include in its combined group, for income and franchise tax reporting purposes, every corporation in its commonly controlled group, regardless of whether such corporations are engaged in the same unitary business of the taxpayer. Under current law, the Department of Revenue (DOR) may not disallow such an election, or disregard its effect. Under the bill, if DOR determines that such an election has the effect of tax avoidance, DOR must disregard the election's tax effect or disallow the election.

Sharing Pre-2009 Losses
Under current law, for each taxable year that a corporation that is a member of a combined group has a net business loss carry–forward from a taxable year beginning before January 1, 2009, the corporation may, for 20 taxable years, use up to 5% of the net business loss carry–forward to offset the income of all other members of the combined group. The bill eliminates this provision.

Manufacturing and Agriculture Credit
Under current law, for taxable years beginning on or after January 1, 2013, an individual taxpayer may claim a state income tax credit equal to the taxpayer's qualified production activities income derived from manufacturing property and agricultural property, multiplied by a certain percentage. A corporation may claim a state income and franchise tax credit equal to the lesser of its taxable income apportioned to this state or its qualified production activities income derived from manufacturing property or agricultural property located in this state, multiplied by a certain percentage. The percentage of qualified production activities income that a taxpayer may claim as a credit is 1.875% for 2013, 3.75% for 2014, 5.526% for 2015, and 7.5% for 2016 and for each year thereafter. The bill repeals the credit for taxable years beginning on or after January 1, 2014.

Changes to Rates and Brackets
Under current law, Wisconsin has four individual income tax rates and brackets. For a single or head of household filer in 2013, taxable income of less than $10,750 was taxed at a rate of 4.40%; taxable income between $10,750 and $21,490 was taxed at a rate of 5.84%; taxable income between $21,490 and $236,600 was taxed at a rate of 6.27%; and taxable income above $236,600 was taxed at a rate of 7.65%. Married persons filing a joint return were subject to the same rates, but the tax bracket thresholds were generally 33% higher than for single filers. Married persons filing separate returns were subject to the same rates, but the tax bracket thresholds were generally 33% lower than for single filers.

Prior to 2013 Wisconsin Act 20, the current law 6.27% tax bracket was comprised of two separate tax brackets. For a single or head of household filer in 2013, the act reduced the tax rate from 6.50% to 6.27% for taxable income between $21,490 and $161,180. It also reduced the tax rate from 6.75% to 6.27% for taxable income between $161,180 and $236,600. The other individual income tax rates were also reduced under 2013 Wisconsin Act 20, but the bracket thresholds were not adjusted.

Under this bill, the prior law 6.75% rate is restored for taxable income between $161,180 and $236,600, retroactively effective for tax year 2013. The bill also restores the prior law 7.75% tax rate for taxable income above $236,600, retroactively effective for tax year 2013. The bill further reduces the 4.40% tax rate to 4.00%, retroactively effective for tax year 2013.

Personal Exemptions
Under current law, Wisconsin personal exemptions reduce the amount of income subject to tax by $700 for each taxpayer, spouse, and dependent.

This bill increases the personal exemption amount from $700 to $4,310 for single filers with Wisconsin adjusted gross income (WAGI) below $12,000, married joint filers with WAGI below $20,000, head of household filers with WAGI below $14,000, and married separate filers with WAGI below $10,000. For single filers with WAGI above $12,000, the personal exemption amount is reduced by 7.52% of WAGI in excess of $12,000. The WAGI phase-down range for single filers is $12,000 to $60,000, above which the personal exemption amount is set at $700. The comparable WAGI phase-down ranges for married joint filers, head of household filers, and married separate filers are respectively, $20,000 to $100,000, $14,000 to $70,000, and $10,000 to $50,000. The bill does not adjust the $700 exemption that taxpayers may claim for qualified dependents.

Earned Income Tax Credit (EITC)
Under current law, the Wisconsin EITC is calculated as a percentage of the federal EITC. The state credit, as a percentage of the federal credit, is 4% for claimants with one qualifying child, 11% for claimants with two qualifying children, and 34% for claimants with three or more qualifying children. The bill retroactively restores the state credit rates that existed prior to 2011 Wisconsin Act 32. Under the bill, the state credit, as a percentage of the federal credit, is 4% for claimants with one qualifying child, 14% for claimants with two qualifying children, and 43% for claimants with three or more qualifying children.

Homestead Tax Credit
Under current law, low income homeowners and renters may qualify for a refundable income tax credit based on household income and property taxes or rent constituting property taxes. If household income is $8,060 or less, the credit is 80% of property taxes up to $1,460. If household income exceeds $8,060 but is no more than $24,680, the credit is 80% of the amount by which property taxes exceeds 8.785% of household income in excess of $8,060. If household income exceeds $24,680, no credit is allowed.

Under 2011 Wisconsin Act 32, the homestead tax credit formula factors (maximum income, maximum property taxes, and income threshold) are not indexed for inflation after 2010. This bill retroactively restores inflation indexing.

Exclusion of Capital Gains
Under current law, there is an individual income tax exclusion for 30% of the net long-term capital gains realized from the sale of assets held more than one year and the sale of assets acquired from a decedent. Gains realized from the sale of farm assets held more than one year and the sale of farm assets acquired from a decedent are subject to a 60% exclusion.

Under this bill, the 30% exclusion does not apply to taxable years beginning after December 31, 2013.

Fiscal Estimate

As described below, and including the interactive effect of the various provisions, the bill would result in an increase in revenue of an estimated $149.2 million in FY 2015, $161.4 million in FY 2016, and $205.3 million in FY 2017. In addition, the bill would result in increased expenditures of $94.8 million in FY 2015, $48.7 million in FY 2016, and $53.2 million in FY 2017.

All of the estimates shown below assume that the bill is enacted after the June 15, 2014 estimated payment due date. The fiscal effect for prior years for provisions that are retroactive, and therefore would have had a fiscal effect in prior years had they been in effect, are included in the estimates shown for FY 2015. The estimates do not include any interest that may accrue to the taxpayer or to the Department from retroactive provisions.

Controlled Group Election
There is no fiscal effect for this provision, as other provisions in current law allow the Department to adjust combined corporate tax returns to prevent tax avoidance.

Sharing Pre-2009 Losses
Based on a simulation using tax year 2009 combined corporate returns, and adjusting for subsequent changes in law and economic conditions, the provisions of the bill that would repeal the sharing of pre-2009 losses among combined group members would result in an increase in revenue of an estimated $61.4 million in FY 2015, $18.2 million in FY 2016, and $17.8 million in FY 2017.

Manufacturing and Agriculture Credit
Based on simulations using 2011 individual income tax returns adjusted for income levels and law, and a simulation using tax year 2009 corporate returns adjusted for changes in law and economic conditions, repealing the manufacturing and agriculture credit for tax years 2014 and beyond would result in an increase in revenue of an estimated $118.9 million in FY 2015, $138.8 million in FY 2016, and $170.5 million in FY 2017.

Changes to Rates and Brackets
Based on simulations using 2011 individual income tax returns, adjusted for income levels and law, this provision is expected to reduce net tax by $61.8 million for tax year 2013, however some filers would owe less (due to the reduced bottom rate) while other filers would owe more (due to the increased top rates). It is not clear the extent to which individuals would amend their returns, so the fiscal effect of this provision is unknown. However, if it is assumed that half of individuals with reduced liabilities would amend, while all individuals with increased liabilities would be required to amend, the fiscal effect would be an increase in revenue of an estimated $29.2 million in FY 2015, $34.2 million in FY 2016, and $35.2 million in FY 2017.

Personal Exemptions
Based on simulations using 2011 individual income tax returns, adjusted for income levels and law, this provision is expected to reduce revenue by $197.7 million in FY 2015, $190.8 million in FY 2016, and $183.8 million in FY 2017.

Earned Income Tax Credit
Based on an analysis of state EITC claims from prior years, the higher credit rates would have increased EITC claims by an average of $24.0 million annually dating back to fiscal year 2012. It is not clear the extent to which EITC claimants would amend prior year returns under the bill, so the fiscal effect of this provision is unknown. However, assuming half of the expanded credit amounts are claimed for tax year 2011 to 2013 during fiscal year 2015, the provision would result in an increase in expenditures from the appropriation for the EITC of an estimated $60.2 million in FY 2015, and $24.1 million in FY 2016 and annually thereafter.

Homestead Tax Credit
Based on an analysis of homestead credit claims from prior years, indexing would have increased claims by $3.3 million in fiscal year 2012, $8.6 million in fiscal year 2013, and $15.5 million in fiscal year 2014. It is not clear the extent to which homestead credit claimants would amend prior year returns under the bill, so the fiscal effect of this provision is unknown. However, assuming half of the expanded credit amounts are claimed for tax year 2011 to 2013 during fiscal year 2015, the provision would increase expenditures from the appropriation for the credit by $34.6 million in FY 2015, $24.6 million in FY 2016, $29.1 million in FY 2017, and increasing amounts annually thereafter.

Exclusion of Capital Gains
Based on simulations using 2011 individual income tax returns, adjusted for income levels and law, this provision would be expected to increase revenue by $134.0 million in FY 2015, $156.7 million in FY 2016, $160.2 million in FY 2017 and annually thereafter. Capital gains realizations are more volatile than other income sources. Although the bill reflects Department of Revenue forecasts of long-term capital gains realizations, market conditions may dramatically affect the fiscal impact of the exclusion in any given year.

Interactive Effects
A number of the provisions of the bill are interactive, where the provisions of one section of the bill will change the fiscal effect of the provisions in another section of the bill. Because of this, the total net fiscal effect of the bill differs from the sum of each provision when estimated in isolation. These interactive effects would increase revenue over the sum of the estimates shown above by an estimated $3.4 million in FY 2015, $4.3 million in FY 2016, and $5.4 million in FY 2017.

Administrative Costs
It is estimated that the bill would result in up to 1.6 million amended returns being filed. The Department would need to hire 1,511 hours of LTE Revenue Agent time to process the returns at a cost for salary and fringe benefits of $32,100.

Long-Range Fiscal Implications

	Fiscal Effect (millions)		
Provision	**FY 2015**	**FY 2016**	**FY 2017**
Changes in Revenue			
Sharing Pre-2009 Losses	61.4	18.2	17.8
Manufacturing and Agriculture Credit (Corp)	64.5	74.5	91.5
Manufacturing and Agriculture Credit (Indiv)	54.4	64.3	79.0
Change Rates	29.2	34.2	35.2
Personal Exemption	(197.7)	(190.8)	(183.8)
Capital Gains	134.0	156.7	160.2
Interaction Effects (Corporate)	1.7	2.0	2.5
Interaction Effects (Individual)	1.7	2.3	2.9
Net Revenue Effect	**149.2**	**161.4**	**205.3**
Changes in Appropriations			
EITC	60.2	24.1	24.1
Homestead Credit	34.6	24.6	29.1
Net Appropriation Effect	**94.8**	**48.7**	**53.2**

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Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

The Department would need 1,511 hours of LTE Revenue Agent time at a cost for salary and fringe benefits of $32,100 to process amended returns.

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	$Shown on Attachment	$
NET CHANGE IN REVENUE	$Shown on Attachment	$

Agency/Prepared By	Authorized Signature	Date
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