



State of Wisconsin

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RICHARD CHAMPAGNE
CHIEF

January 13, 2016

MEMORANDUM

To: Senator Darling

From: Joseph T. Kreye, Legal Section Administrator, (608) 266-2263

Subject: Technical Memorandum to **2015 SB 525** (LRB-4058/1) by **DOR**

We received the attached technical memorandum relating to your bill. This copy is for your information and your file.

If you wish to discuss this memorandum or the necessity of revising your bill or preparing an amendment, please contact me.

MEMORANDUM

January 12, 2016

TO: Joseph Kreye
Legislative Reference Bureau

FROM: Michael Wagner
Michael Oakleaf
Department of Revenue

SUBJECT: Technical Memorandum on SB 525 (LRB 4058/1) – Industry Cluster Research Credit

The Department has the following technical concerns with the above-referenced bill:

- The credit under the bill provides that a person may elect the alternative computation under section 41(c)(4) of the Internal Revenue Code. The Department recommends that this portion be removed because for taxable years beginning after December 31, 2014, Wisconsin no longer allows the alternative computation. Also, it is reasonable to assume that no one would elect the alternative computation because it would result in a much lower credit than the 25% rate of the proposed credit.
- The research credits under current law were significantly modified in the 2015-2017 state budget. As part of the overhaul, the IRC references for the research credit were updated. The reference in current law should replace those in the bill, as shown below:

Section 41 (f) (1), (2), (5), and (6) and (h) of the Internal Revenue Code does not apply to the credit under this subdivision.

- Under the bill, an industry cluster partnership must approve the research in order for the research expenses to be eligible for the credit. This is generally analogous to having a third-party entity, such as WEDC, certify a taxpayer for a credit. In general, when a separate entity certifies a tax credit, criteria are provided to provide clarity to the certifying entity, the claimant, and the Department of Revenue as to what is eligible. The author may wish to include criteria for the approval of research that would be eligible for the credit.

If you have any questions regarding this technical memorandum, please contact Michael Oakleaf at 261-5173 or via email at Michael.oakleaf@revenue.wi.gov.

cc: Sen. Darling