

Fiscal Estimate Narratives

DOR 4/28/2015

LRB Number	15-1673/2	Introduction Number	AB-0178	Estimate Type	Original
Description					
Tax credits and exemptions for businesses that sell noncompeting products in this state					

Assumptions Used in Arriving at Fiscal Estimate

The bill provides an income and franchise tax exemption to a corporation that establishes its headquarters in this state if the Wisconsin Economic Development Corporation (WEDC) Board determines that the corporation would not sell products that directly compete with products sold by any other business that has its headquarters in this state.

The bill also provides an individual income tax credit equal to 7.65 percent of the individual's income derived from a partnership, limited liability company, or tax-option corporation that establishes its headquarters in this state if the WEDC Board determines that the products sold by the business do not directly compete with the products sold by any other business that has its headquarters in this state.

Taxpayers may claim the exemption or credit for 20 taxable years. During that time, the Department of Revenue (DOR) will annually determine the amount of any additional income tax revenue collected from individuals employed by the business and use that revenue to decrease individual income tax rates. With regard to a business that claims the exemption, after the business stops claiming the exemption, DOR will determine the amount of any additional corporate tax revenue collected from the business and use that revenue to decrease corporate tax rates.

Fiscal estimate

Corporate Income and Franchise Tax Exemption and Individual Income Tax Credit - The fiscal effect of the provisions of the bill providing an exemption from the income and franchise tax or an individual income tax credit for 20 years for a qualifying corporation that relocates into this state cannot be determined. It is anticipated that the fiscal effect will be minimal, as it is assumed that most businesses that would relocate into the state would have a direct competitor already headquartered in the state. In addition, the bill would have a minimal effect on the tax liability of manufacturers that would qualify for the exemption and credit because of the existing Manufacturing and Agriculture Credit. However, the potential exists that one or more large non-manufacturing businesses without direct competitors with a headquarters in Wisconsin could relocate their headquarters into the state. In this case, there could be significant revenue losses relative to current law for 20 years after the relocations take place.

Adjusting Individual Income Tax Rates - As with the income and franchise tax deduction and credit, the fiscal effect of adjusting income tax rates based on any additional income tax revenue paid by employees of relocated businesses cannot be determined. In order to reduce the middle tax bracket by .01%, under current law approximately \$7.0 million in additional tax revenue from the employees of the non-competing business would be required. While the amount of additional income tax from employees of non-competing businesses is expected to be minimal, the possibility exists that one or more large non-manufacturing entities without a direct competitor headquartered in Wisconsin could relocate into the state. In this case, there could be significant revenue losses relative to current law for 20 years after the relocations take place. The bill would result in an annual revenue loss equal to the additional revenue determined under the bill. The fiscal effect would be expected to grow annually as the tax base grows.

Adjusting Corporate Income and Franchise Tax Rates - The earliest this provision would have a fiscal effect would be in the 21st year following the first year a corporation claims the income and franchise tax exemption. Under current law, in order to reduce the rate by .01% an additional \$1.7 million in corporate income and franchise tax revenue would be required.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2015 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Tax credits and exemptions for businesses that sell noncompeting products in this state			
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, 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	\$	\$
	NET CHANGE IN REVENUE	\$See Text	\$
Agency/Prepared By		Authorized Signature	Date
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