

Fiscal Estimate - 2015 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 15-3190/1	Introduction Number AB-0888	
Description Creation of the State of Wisconsin Next Generation Reserve Board and Wisconsin next generation reserve fund, authorizing the State of Wisconsin Investment Board to provide certain advice, services, and facilities to state agencies and others, requiring the exercise of rule-making authority, and making appropriations		
Fiscal Effect State: <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
Local: <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue 5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities 2. <input type="checkbox"/> Decrease Costs 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
Fund Sources Affected Affected Ch. 20 Appropriations <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS 20.195, 20.536(1)(k)		
Agency/Prepared By DOR/ Bradley Caruth (608) 261-8984	Authorized Signature Michael Wagner (608) 266-6785	Date 2/16/2016

Fiscal Estimate Narratives

DOR 2/16/2016

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Assumptions Used in Arriving at Fiscal Estimate

This bill creates the Wisconsin Next Generation Reserve Board, with the primary function of making grants, loans, and investments in Wisconsin bioscience companies. The bill also creates the Wisconsin next generation reserve fund for use by the reserve board. Each year beginning on July 1, 2017, the Department of Revenue (DOR) is required to deposit into the reserve fund an amount equal to a portion of withholding taxes from designated bioscience companies and hospitals.

Under the bill, DOR is directed to determine the total amount of withholding taxes due and payable from designated bioscience companies and hospitals during calendar year 2015. These companies are identified by the North American Industry Classification System (NAICS) codes provided by the companies, which indicate the companies' principal business activities. In particular, the bill requires that the companies use the 6-digit NAICS code for one of the following 29 principal business activities:

Wet Corn Milling
Soybean and Other Oilseed Processing
Ethyl Alcohol Manufacturing
All Other Basic Organic Chemical Manufacturing
Artificial and Synthetic Fibers and Filaments Manufacturing
Nitrogenous Fertilizer Manufacturing
Phosphatic Fertilizer Manufacturing
Fertilizer (Mixing Only) Manufacturing
Pesticide and Other Agricultural Chemical Manufacturing
Medicinal and Botanical Manufacturing
Pharmaceutical Preparation Manufacturing
In-Vitro Diagnostic Substance Manufacturing
Biological Product (except Diagnostic) Manufacturing
Electromedical and Electrotherapeutic Apparatus Manufacturing
Analytical Laboratory Instrument Manufacturing
Irradiation Apparatus Manufacturing
Surgical and Medical Instrument Manufacturing
Surgical Appliance and Supplies Manufacturing
Dental Equipment and Supplies Manufacturing
Ophthalmic Goods Manufacturing
Dental Laboratories
Testing Laboratories
Research and Development in Biotechnology
Research and Development in the Physical, Engineering, and Life Sciences (except Biotechnology)
HMO Medical Centers
Freestanding Ambulatory Surgical and Emergency Centers
Medical Laboratories
Diagnostic Imaging Centers
General Medical and Surgical Hospitals

Beginning on July 1, 2017, DOR is directed to deposit 95 percent of the amount by which withholding tax of the qualifying companies exceeds the withholding tax for calendar year 2015. The bill limits annual deposits to no more than \$15 million on July 1, 2017, no more than \$50 million annually thereafter, and no more than \$350 million overall. The Joint Committee on Finance may approve deposits of up to an additional \$150 million.

DOR does not currently require companies to provide 6-digit NAICS codes on returns. The NAICS codes are data-captured when they are provided, but NAICS codes are not subject to independent verification by DOR since they do not affect tax calculations.

Based on data from DOR and the U.S. Census Bureau, DOR estimates that the qualifying businesses remitted approximately \$483 million of withholding tax in 2015. However, DOR will only be able to verify \$220 million, absent improved NAICS code information provided by qualifying companies. For the remainder of this fiscal estimate, it is assumed that DOR will obtain improved NAICS codes from qualifying businesses and hospitals. If DOR is limited to current verifiable withholding, the fiscal effect of the bill will be substantially lower.

The fiscal effect of the bill will also depend on the annual growth in withholding tax remitted by qualifying businesses. The wage and salary growth forecast for Wisconsin, for 2016 is 3.9 percent. Using that rate, 95 percent of the increase in withholding tax would be between approximately \$17.9 million in 2016. As a result, DOR would be directed to deposit the statutory maximum amount of \$15 million into the reserve fund in 2017.

Under the bill, withholding taxes remitted by qualifying companies in future years would be compared to the calendar year 2015 total, resulting in cumulative increases in the amounts deposited into the reserve fund by DOR. Using the 2017 wage and salary growth forecast, DOR would deposit \$41.3 million in 2018 and DOR would deposit the annual maximum of \$50 million into the account for years 2019 to 2023. DOR would deposit the remaining \$43.7 million to reach the overall maximum of \$350 million in 2024.

If withholding for the qualified employers grows at a faster rate than the current statewide forecast, it would increase the 2018 deposit amount to as much as \$50 million and decrease the 2024 deposit amount to as low as \$35 million.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2015 Session

Detailed Estimate of Annual Fiscal Effect

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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, ets.)		
	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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