

Fiscal Estimate Narratives

DOR 1/13/2016

LRB Number	15-4058/1	Introduction Number	SB-525	Estimate Type	Original
Description Industry cluster research and development tax credit					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, a taxpayer may claim a research credit that is equal to 5.75% of the amount by which the claimant's qualified research expenses for the taxable year exceed 50 percent of the average qualified research expenses for the 3 taxable years immediately preceding the taxable year for which the claimant claims the credit. If the claimant had no qualified research expenses in any of the 3 taxable years immediately preceding the taxable year for which the claimant claims the credit, the claimant may claim an amount equal to 2.875 percent of the qualified research expenses for the taxable year for which the credit is claimed.

The bill creates an additional income and franchise tax credit that would be equal to 25% of a taxpayer's qualified research expenses incurred in the taxable year for research conducted in this state, if the research is approved by an industry cluster partnership. Claimants would be able to claim both the existing research credit and the industry cluster research credit under the bill for the same expenditures if meeting the respective qualifying criteria.

An industry cluster partnership is defined in the bill as a nonprofit organization that primarily assists in developing and supporting a regional concentration of private sector businesses that share a common interest in fostering industry-specific research and development, worker skills training, and market development. The partnership must collaborate with institutions of higher education in this state, must be governed by a board of directors with members from the public and private sectors, and must be a participant in the National Science Foundation's (NSF) Industry and University Cooperative Research Center Program.

Fiscal Estimate

There are currently two centers in the state that participate in the NSF's Industry and University Cooperative Research Center Program: the Water and Equipment Policy Center in Milwaukee; and the Power Systems Engineering Research Center at UW-Madison. Based on a review of claims of the current law research credit for companies that participate in the programs of the two centers, the bill would result in a reduction in income and franchise tax revenue of an estimated \$1.2 million in FY 2016, \$4.9 million in FY 2017, \$5.2 million in FY 2018, and \$5.4 million in FY 2019.

The fiscal effect could be greater to the extent that claimants increase their research expenses or more taxpayers conduct eligible research in Wisconsin. The fiscal effect could be lower to the extent that other provisions in current law, including the existing research credit and the manufacturing and agriculture credit, reduce a claimant's available liability to be offset by the credit under the bill.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2015 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Industry cluster research and development tax credit		
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	\$	\$-5,400,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$-5,400,000
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$-5,400,000	\$
Agency/Prepared By		
Authorized Signature		Date
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