

Fiscal Estimate - 2017 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 17-5356/1	Introduction Number AB-1010
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Description
 Providing loans, loan guarantees, tax benefits, and procurement preferences to employee-owned companies, establishing a center for employee ownership in the University of Wisconsin System, and granting rule-making authority

Fiscal Effect

State:

No State Fiscal Effect
 Indeterminate
 Increase Existing Appropriations
 Increase Existing Revenues
 Decrease Existing Appropriations
 Decrease Existing Revenues
 Create New Appropriations

Increase Costs - May be possible to absorb within agency's budget
 Yes No
 Decrease Costs

Local:

No Local Government Costs
 Indeterminate

1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <u>0</u> <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	

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	

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Fiscal Estimate Narratives

DOR 3/9/2018

LRB Number	17-5356/1	Introduction Number	AB-1010	Estimate Type	Original
Description Providing loans, loan guarantees, tax benefits, and procurement preferences to employee-owned companies, establishing a center for employee ownership in the University of Wisconsin System, and granting rule-making authority					

Assumptions Used in Arriving at Fiscal Estimate

This fiscal estimate pertains only to the provisions of the bill related to taxation of employee stock ownership plans, employee ownership trusts, and direct stock ownership plans.

The bill creates two new employee ownership plans: an employee ownership trust and a direct share ownership plan. In addition, the bill expands the current Wisconsin law for employee stock ownership plans to include limited liability companies taxed as partnerships. Under current federal law only regular C-corporations and tax-option corporations may participate in employee stock ownership plans.

The bill also provides an exclusion for income derived from an employee ownership trust and a subtraction modification for certain amounts of income derived from the new employee ownership plans. Finally, the bill provides an exclusion from income for interest income derived from an employee ownership loan which is used to acquire shares or membership interest of an employer.

Fiscal Estimate

The federal tax treatment of the employee ownership trusts and the direct stock ownership plans created under the bill is unknown. In addition, a plan established by a partnership would not be considered a qualified trust under the Internal Revenue Code. Use of these new entities, while providing preferential tax treatment under Wisconsin law, could create significant federal tax liabilities for the business owners and/or the employees. Given this uncertainty, it is unclear how many businesses would take advantage of these new entities. Therefore the fiscal effect of the bill is unknown.

However, if the federal tax treatment of these new entities is clarified, either through rulings from the Internal Revenue Service or through new federal legislation, and if it provides similar preferential treatment under federal law, more businesses could participate and the bill could result in a reduction in income and franchise tax revenue of an unknown but potentially substantial amount.

Long-Range Fiscal Implications