

Fiscal Estimate Narratives

DOR 11/7/2017

LRB Number	17-4403/1	Introduction Number	SB-525	Estimate Type	Original
Description creating the innovation fund and economic development programs funded by that fund, establishing the Innovation Fund Council, authorizing the State of Wisconsin Investment Board to provide certain advice and services to state agencies and others, and making appropriations					

Assumptions Used in Arriving at Fiscal Estimate

This bill creates the Wisconsin Innovation Fund and directs WEDC to establish an Innovation Fund Council for the purpose of advising WEDC on the use of amounts in the fund. Each year, beginning on July 1, 2019 and ending on July 1, 2033, the Department of Revenue (DOR) is required to deposit into the Innovation Fund an amount equal to a portion of withholding taxes from designated businesses.

In order to determine the deposit amount, DOR is directed to calculate the total amount of withholding taxes due and payable from designated businesses during calendar year 2017. These businesses are identified by the North American Industry Classification System (NAICS) codes, which indicate their principal business activities. The list of eligible NAICS codes and their principal business activities are included in the attachment to this fiscal estimate.

Beginning on July 1, 2019, DOR is directed to deposit 95% of the amount by which withholding tax of the qualifying businesses exceeds the withholding tax for calendar year 2017. The bill limits deposits to no more than \$50 million annually, and no more than \$500 million overall.

DOR does not currently require companies to provide 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 account for approximately one fourth of state withholding, however, absent improved NAICS code information provided by qualifying businesses, DOR will not be able to positively verify a significant portion of the withholding. If DOR is limited to current verifiable withholding, the fiscal effect of the bill could be substantially lower.

The fiscal effect of the bill will also depend on the annual growth in withholding tax remitted by qualifying businesses. Based on an estimated withholding growth rate of 3.7% in the first year, and a baseline withholding amount of \$1.9 billion for the qualifying businesses, 95% of the increase in withholding tax would exceed the \$50 million threshold under the bill. As a result, DOR would be directed to deposit the statutory maximum amount of \$50 million into the reserve fund in 2019 and each year thereafter until the \$500 million overall cap is reached (July 1, 2028).

Long-Range Fiscal Implications

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The bill requires DOR to calculate the withholding for businesses using the following NAICS codes:

- 111 Crop Production
- 112 Animal Production and Aquaculture
- 311 Food Manufacturing
- 424 Merchant Wholesalers, Nondurable Goods
- 445 Food and Beverage Stores
- 481 Air Transportation
- 3121 Beverage Manufacturing
- 3364 Aerospace Product and Parts Manufacturing
- 4244 Grocery and Related Product Merchant Wholesalers
- 4245 Farm Product Raw Material Merchant Wholesalers
- 4881 Support Activities for Air Transportation
- 221111 Hydroelectric Power Generation
- 221112 Fossil Fuel Electric Power Generation
- 221113 Nuclear Electric Power Generation
- 221114 Solar Electric Power Generation
- 221115 Wind Electric Power Generation
- 221116 Geothermal Electric Power Generation
- 221117 Biomass Electric Power Generation
- 221121 Electric Bulk Power Transmission and Control
- 221122 Electric Power Distribution
- 221210 Natural Gas Distribution
- 221310 Water Supply and Irrigation Systems
- 221330 Steam and Air-Conditioning Supply
- 237990 Other Heavy and Civil Engineering Construction
- 238210 Electrical Contractors and Other Wiring Installation Contractors
- 311221 Wet Corn Milling
- 311224 Soybean and Other Oilseed Processing
- 324110 Petroleum Refineries
- 324191 Petroleum Lubricating Oil and Grease Manufacturing
- 325193 Ethyl Alcohol Manufacturing
- 325199 All Other Basic Organic Chemical Manufacturing
- 325220 Artificial and Synthetic Fibers and Filaments Manufacturing
- 325311 Nitrogenous Fertilizer Manufacturing
- 325312 Phosphatic Fertilizer Manufacturing
- 325314 Fertilizer (Mixing Only) Manufacturing
- 325320 Pesticide and Other Agricultural Chemical Manufacturing
- 325411 Medicinal and Botanical Manufacturing
- 325412 Pharmaceutical Preparation Manufacturing
- 325413 In-Vitro Diagnostic Substance Manufacturing
- 325414 Biological Product (except Diagnostic) Manufacturing
- 325998 All Other Miscellaneous Chemical Product and Preparation Manufacturing
- 326122 Plastics Pipe and Pipe Fitting Manufacturing
- 326199 All Other Plastics Product Manufacturing
- 327331 Concrete Block and Brick Manufacturing
- 332410 Power Boiler and Heat Exchanger Manufacturing

332420 Metal Tank (Heavy Gauge) Manufacturing
332911 Industrial Valve Manufacturing
332913 Plumbing Fixture Fitting and Trim Manufacturing
332999 All Other Miscellaneous Fabricated Metal Product Manufacturing
333111 Farm Machinery and Equipment Manufacturing
333241 Food Product Machinery Manufacturing
333242 Semiconductor Machinery Manufacturing
333249 Other Industrial Machinery Manufacturing
333318 Other Commercial and Service Industry Machinery Manufacturing
333413 Industrial and Commercial Fan and Blower and Air Purification Equipment Manufacturing
333414 Heating Equipment (except Warm Air Furnaces) Manufacturing
333415 Air-Conditioning and Warm Air Heating Equipment and Commercial and Industrial Refrigeration Equipment Manufacturing
333611 Turbine and Turbine Generator Set Units Manufacturing
333612 Speed Changer, Industrial High-Speed Drive, and Gear Manufacturing
333613 Mechanical Power Transmission Equipment Manufacturing
333618 Other Engine Equipment Manufacturing
333991 Power-Driven Handtool Manufacturing
333993 Packaging Machinery Manufacturing
333994 Industrial Process Furnace and Oven Manufacturing
333995 Fluid Power Cylinder and Actuator Manufacturing
333996 Fluid Power Pump and Motor Manufacturing
333999 All Other Miscellaneous General Purpose Machinery Manufacturing
334111 Electronic Computer Manufacturing
334290 Other Communications Equipment Manufacturing
334412 Bare Printed Circuit Board Manufacturing
334413 Semiconductor and Related Device Manufacturing
334416 Capacitor, Resistor, Coil, Transformer, and Other Inductor Manufacturing
334418 Printed Circuit Assembly (Electronic Assembly) Manufacturing
334419 Other Electronic Component Manufacturing
334510 Electromedical and Electrotherapeutic Apparatus Manufacturing
334511 Search, Detection, Navigation, Guidance, Aeronautical, and Nautical System and Instrument Manufacturing
334512 Automatic Environmental Control Manufacturing for Residential, Commercial, and Appliance Use
334513 Instruments and Related Products Manufacturing for Measuring, Displaying, and Controlling Industrial Process Variables
334514 Totalizing Fluid Meter and Counting Device Manufacturing
334515 Instrument Manufacturing for Measuring and Testing Electricity and Electrical Signals
334516 Analytical Laboratory Instrument Manufacturing
334517 Irradiation Apparatus Manufacturing
334519 Other Measuring and Controlling Device Manufacturing
335110 Electric Lamp Bulb and Part Manufacturing
335121 Residential Electric Lighting Fixture Manufacturing
335122 Commercial, Industrial, and Institutional Electric Lighting Fixture Manufacturing
335129 Other Lighting Equipment Manufacturing
335210 Small Electrical Appliance Manufacturing
335220 Major Household Appliance Manufacturing
335311 Power, Distribution, and Specialty Transformer Manufacturing
335312 Motor and Generator Manufacturing
335313 Switchgear and Switchboard Apparatus Manufacturing
335314 Relay and Industrial Control Manufacturing
335911 Storage Battery Manufacturing
335912 Primary Battery Manufacturing
335921 Fiber Optic Cable Manufacturing

335929 Other Communication and Energy Wire Manufacturing
335931 Current-Carrying Wiring Device Manufacturing
335999 All Other Miscellaneous Electrical Equipment and Component Manufacturing
339112 Surgical and Medical Instrument Manufacturing
339113 Surgical Appliance and Supplies Manufacturing
339114 Dental Equipment and Supplies Manufacturing
339115 Ophthalmic Goods Manufacturing
339116 Dental Laboratories
511210 Software Publishers
517410 Satellite Telecommunications
541320 Landscape Architectural Services
541330 Engineering Services
541370 Surveying and Mapping (except Geophysical) Services
541380 Testing Laboratories
541511 Custom Computer Programming Services
541512 Computer Systems Design Services
541519 Other Computer Related Services
541620 Environmental Consulting Services
541713 Research and Development in Nanotechnology
541714 Research and Development in Biotechnology (except Nanobiotechnology)
541715 Research and Development in the Physical, Engineering, and Life Sciences (except Nanotechnology and Biotechnology)
611512 Flight Training
621491 HMO Medical Centers
621493 Freestanding Ambulatory Surgical and Emergency Centers
621511 Medical Laboratories
621512 Diagnostic Imaging Centers
622110 General Medical and Surgical Hospitals
811219 Other Electronic and Precision Equipment Repair and Maintenance

Fiscal Estimate Worksheet - 2017 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description creating the innovation fund and economic development programs funded by that fund, establishing the Innovation Fund Council, authorizing the State of Wisconsin Investment Board to provide certain advice and services to state agencies and others, and making appropriations			
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		50,000,000	
TOTAL State Costs by Category		\$50,000,000	\$
B. State Costs by Source of Funds			
GPR		50,000,000	
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		\$50,000,000	\$
NET CHANGE IN REVENUE		\$	\$
Agency/Prepared By		Authorized Signature	Date
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