

**Fiscal Estimate - 2021 Session**

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 21-5089/1	<b>Introduction Number</b> AB-0816
<b>Description</b> pass-through entity audits	
<b>Fiscal Effect</b>	
<b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input checked="" type="checkbox"/> Increase Existing Revenues <input 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 type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs	
<b>Local:</b> <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs      3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory                          5. Types of Local Government Units Affected 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"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts <input type="checkbox"/> Counties <input type="checkbox"/> Others      0	
<b>Fund Sources Affected</b> <b>Affected Ch. 20 Appropriations</b> <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	
<b>Agency/Prepared By</b> DOR/ Zach Petersen (608) 267-2428	<b>Authorized Signature</b> Michael Oakleaf (608) 261-5173
<b>Date</b> 1/6/2022	

## Fiscal Estimate Narratives

DOR 1/6/2022

LRB Number	21-5089/1	Introduction Number	AB-0816	Estimate Type	Original
<b>Description</b> pass-through entity audits					

### Assumptions Used in Arriving at Fiscal Estimate

The bill makes various changes related to conducting tax audits of pass-through entities such as partnerships, limited liability companies, and tax-option corporations. Under the bill, the Department of Revenue may do all of the following with regard to an audit of a pass-through entity:

1. Assess and collect additional tax from a pass-through entity on income otherwise reportable by its pass-through members. Under the bill, a "pass-through member" is, generally, a partner in a partnership, member of a limited liability company, shareholder in a tax-option corporation, a beneficiary of an estate or a trust, or any other person who derives a tax benefit from a pass-through entity.
2. Direct the secretary of the Department of Administration to refund to a pass-through entity that part of an overpayment paid by the pass-through entity and not by the entity's pass-through members.
3. Assess an adjustment to reduce a tax credit to a pass-through entity if the pass-through entity previously computed the credit and reported the credit to its pass-through members.
4. Assess an adjustment to increase a tax credit to offset additional tax assessed to a pass-through entity.
5. Assess any pass-through member of a pass-through entity for additional tax otherwise owed by one or more of the pass-through members.

### Fiscal Effect

The bill will result in an unknown change in revenue that varies from year to year.

There is a potential for revenue increases when tax is assessed at 7.65% at the entity level, and the member's marginal tax rate is less than 7.65%; or when a partnership is assessed at 7.9%, but its partners are S corps or partnerships that pass through the income to individuals, trusts, or estates that are taxed at a rate of 7.65% or less.

The bill allows for pass through entities with fewer than 25 members to opt of the entity level assessment. According to tax year 2018 returns, 96% of partnerships and virtually all S-corps have fewer than 25 members and may opt out. The fiscal effect will vary to the extent that partnerships and S-corps, that do not or are unable to opt out are subject to audit, and to the extent that those audits yield assessments where the pass-through entity owes more tax.

While large assessments are possible in any given year, over time any increase in revenue will not be significant.

### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2021 Session

Detailed Estimate of Annual Fiscal Effect

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<b>LRB Number</b> <b>21-5089/1</b>	<b>Introduction Number</b> <b>AB-0816</b>	
<b>Description</b> pass-through entity audits		
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>		
<b>II. Annualized Costs:</b>		
<b>Annualized Fiscal Impact on funds from:</b>		
	Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$See Text	\$
<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
DOR/ Zach Petersen (608) 267-2428	Michael Oakleaf (608) 261-5173	1/6/2022