

### Fiscal Estimate - 2023 Session

Original       Updated       Corrected       Supplemental

<b>LRB Number</b> <b>23-0281/1</b>		<b>Introduction Number</b> <b>AB-0172</b>	
<b>Description</b> a sole proprietor employee tax credit and granting rule-making authority			
<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 type="checkbox"/> Increase Existing Revenues	
<input type="checkbox"/> Decrease Existing Appropriations		<input checked="" type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Create New Appropriations		<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget	
		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		<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	
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	
<b>5. Types of Local Government Units Affected</b>			
<input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities			
<input type="checkbox"/> Counties <input type="checkbox"/> Others			
<input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts			
<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>		<b>Authorized Signature</b>	
DOR/ Bradley Caruth (608) 261-8984		Michael Oakleaf (608) 261-5173	
		<b>Date</b>	
		4/11/2023	

## Fiscal Estimate Narratives

DOR 4/11/2023

LRB Number	23-0281/1	Introduction Number	AB-0172	Estimate Type	Original
<b>Description</b> a sole proprietor employee tax credit and granting rule-making authority					

### Assumptions Used in Arriving at Fiscal Estimate

This bill creates a nonrefundable credit for sole proprietors who hire their first full-time employee. For the first year during which the sole proprietor employs an eligible individual for the entire year, the sole proprietor may claim a credit equal to the smaller of the employee's wages or \$10,000. In the second year, the credit is the smaller of 50% of the employee's wages or \$5,000. In the third year, the credit is the smaller of 25% of the employee's wages or \$2,500.

Eligible employees must work full-time, must not be immediate members of the sole proprietor's family, and must be paid at least 150% of the federal minimum wage. The Wisconsin Economic Development Corporation will certify eligible claimants under the bill. The maximum amount of the credit that all claimants may claim in all taxable years is \$20 million. The Department of Revenue (DOR) is required to prorate claims in any taxable year in which the total credits claimed exceeds the amount available.

IRS statistics of income indicate that approximately 360,000 tax returns from Wisconsin report sole proprietorship activity each year. Based on a match of sole proprietorship federal employer identification numbers (FEINs) to employee wage statements (w-2s), DOR identified approximately 2,200 sole proprietorships with employees in 2019, but none in 2018. The full-time status, hourly pay, the dates of employment, and the relation between employer and employee were not determinable from the match. While some of the 2,200 sole proprietorships would not have been eligible due to those factors, other sole proprietorships may have become newly eligible because prior year employees did not meet the bill's requirements. Using the 2,200 matched sole proprietors as a proxy for the number of eligible sole proprietor claimants in the first year of the credit, if each sole proprietor was able to claim the smaller of \$10,000 or the w-2 wages as a credit, the total year one credit would have been approximately \$13.3 million.

The credit is effective beginning in tax year 2023. Based on the return match, the credit is likely to reach the \$20 million lifetime limit in 2024 and DOR will need to prorate 2024 credit amounts to allocate the balance of the credit in that year.

Because this bill reduces tax revenue, it may impact the state's maintenance of effort requirement under the American Rescue Plan Act. The Department of Administration should review this bill for this specific purpose to provide further clarity on the matter.

### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

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<b>Description</b> a sole proprietor employee tax credit and granting rule-making authority	
<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. 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, ets.)</b>	
	Increased Rev
	Decreased Rev
GPR Taxes	\$
GPR Earned	
FED	
PRO/PRS	
SEG/SEG-S	
<b>TOTAL State Revenues</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>	
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	4/11/2023