

Fiscal Estimate - 2023 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 23-5703/1	Introduction Number SB-1036
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Description
 creating a baby bond program and baby bond fund, granting rule-making authority, and making an appropriation

Fiscal Effect

State:

<input type="checkbox"/> No State Fiscal Effect	<input type="checkbox"/> Increase Existing Revenues	<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"/> Indeterminate	<input checked="" type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Increase Existing Appropriations		<input type="checkbox"/> Decrease Costs
<input type="checkbox"/> Decrease Existing Appropriations		
<input checked="" type="checkbox"/> Create New Appropriations		

Local:

<input type="checkbox"/> No Local Government Costs	5. Types of Local Government Units Affected	
<input type="checkbox"/> Indeterminate	<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	
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	

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 20.144(5)	

Agency/Prepared By DOR/ Bradley Caruth (608) 261-8984	Authorized Signature Michael Oakleaf (608) 261-5173	Date 2/27/2024
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Fiscal Estimate Narratives

DOR 2/27/2024

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Assumptions Used in Arriving at Fiscal Estimate

This bill affects multiple state agencies. The fiscal estimate below specifically addresses the income tax subtraction as it pertains to the Department of Revenue and individual income tax collections.

The bill requires the Department of Financial Institutions (DFI) to establish and administer a baby bond program and creates a baby bond trust fund managed by the State of Wisconsin Investment Board (SWIB).

Under the bill, the State Registrar of Vital Records provides DFI with copy of the record of birth for each child born in the state. With the Department of Health Services (DHS) and the Department of Revenue (DOR), DFI must determine whether the child's mother meets the income requirements for the Medical Assistance program. If so, DFI must deposit \$3,000 into a baby bond account managed by SWIB with the child designated as the account beneficiary. When the beneficiary turns 18, they may receive distribution of the full account balance to pay expenses associated with:

- 1) postsecondary education of the account beneficiary,
- 2) childcare or education of a minor dependent of the account beneficiary,
- 3) the purchase of a home by the account beneficiary,
- 4) starting a business by the account beneficiary, or
- 5) contributing to a retirement savings account by the account beneficiary.

Eligibility also requires that:

- 1) the account beneficiary and at least one of the account beneficiary's parents is a Wisconsin resident,
- 2) the account beneficiary has successfully completed a financial literacy course developed by DFI, and
- 3) the account beneficiary certifies that they will use the money distributed only to pay expenses described above.

A distribution from an account is not subject to state income tax. DFI may terminate an account beneficiary's account if the account beneficiary dies, the account balance is \$0, or the account beneficiary is at least 30 years of age and has not requested a distribution or has failed to satisfy the conditions for distribution. The balance of an account that is terminated remains in the baby bond trust fund for further use for the baby bond program.

As it pertains to DOR the bill will reduce individual income tax revenue by an amount equal to the amounts distributed multiplied by the beneficiaries' effective tax rates. Because the beneficiaries will not be eligible for distributions until at least 2042, the bill will not create a revenue reduction until that time.

Long-Range Fiscal Implications

Beginning in 2042, the bill will reduce revenue in accordance with the amount distributed and the effective tax rate of the beneficiaries. The amount distributed will further depend on the number of eligible beneficiaries and the rate of return from the trust fund. For example, according to DHS birth statistics, there were 20,447 births in Wisconsin in 2022 for which Medicaid/BadgerCare Plus were the primary sources of payment. If each of these births resulted in a \$3,000 deposit, and the trust fund rate of return averaged 6% for 18 years, the beneficiaries could receive distributions of as much as \$175 million in 2042 (\$8,563 each). Assuming an effective tax rate of 4%, the bill could reduce tax revenue by as much as \$7 million in fiscal year 2043. To the extent that not all individuals will meet the requirements of the bill, the fiscal effect will be smaller.

Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

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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		\$	\$
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		\$	\$
NET CHANGE IN REVENUE		\$See Text	\$

Agency/Prepared By	Authorized Signature	Date
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