

### Fiscal Estimate - 2023 Session

Original     
  Updated     
  Corrected     
  Supplemental

|                             |                                    |
|-----------------------------|------------------------------------|
| LRB Number <b>23-4262/1</b> | Introduction Number <b>SB-0970</b> |
|-----------------------------|------------------------------------|

**Description**  
 creating a digital interactive media tax credit, 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<br><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| <input type="checkbox"/> Indeterminate                        | <input 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                     | <b>5. Types of Local Government Units Affected</b><br><input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities<br><input type="checkbox"/> Counties <input type="checkbox"/> Others<br><input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts |  |
| <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>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><br>DOR/ Zach Petersen (608) 267-2428 | <b>Authorized Signature</b><br>Michael Oakleaf (608) 261-5173 | <b>Date</b><br>2/5/2024 |
|--|---|-------------------------|

## Fiscal Estimate Narratives

DOR 2/5/2024

|  |           |                     |         |               |          |
|--|-----------|---------------------|---------|---------------|----------|
| LRB Number   | 23-4262/1 | Introduction Number | SB-0970 | Estimate Type | Original |
| <b>Description</b><br>creating a digital interactive media tax credit, granting rule-making authority, and making an appropriation |           |                     |         |               |          |

### Assumptions Used in Arriving at Fiscal Estimate

For tax years beginning after December 31, 2023, the bill creates a refundable tax credit for digital interactive media. The credit is equal to the sum of the following:

1. 30% of the salary or wages paid by the claimant to employees residing in this state for producing digital interactive media or entertainment
2. 30% of eligible expenditures

To claim the credit, a person must file an application with the Department of Revenue and receive a certificate of eligibility for the credit. To grant a certificate, DOR must determine that the applicant will have at least \$25,000 in eligible expenditures in the taxable year. The bill also requires the Department of Revenue to audit and verify eligible expenditures of entities that apply for the credit. The bill also creates a biennial reporting requirement relating to the amount of credits claimed, the number of people employed in the state in the industries eligible for the credit, the economic impact of the credit, and the community impact of the industries eligible for the credit.

### Fiscal Estimate

After a review of tax returns of entities that are most likely to claim the credit, the bill will increase expenditures by an estimated \$35.5 million. The fiscal effect could be higher (lower) to the extent that more (fewer) entities are eligible to claim the credit, or that eligible expenses are greater (less than) expected. The fiscal effect would be higher to the extent that it provides an incentive for additional entities to move operations to Wisconsin or to establish new operations in the state.

The bill has a one-time cost of \$124,000 for the creation of an application process, updating and creating forms, and reprogramming, which the Department of Revenue cannot absorb.

The bill requires that each credit is audited by a CPA which can either be done by DOR or contracted out to a third-party. Contracting out to a third-party is not feasible due to an inability for third parties to connect with confidential taxpayer information. Therefore, auditing the claimants must happen internally. Given these constraints, there will be an additional, recurring cost of \$1 million dollars associated with the bill to conduct audits. Current auditors would likely need to be redirected from other revenue-generating audits to audit credit applicants. The potential collection loss from forgoing these other revenue-generating audits is \$9 million annually.

The bill also requires an annual cost of \$23,000 to acquire software and training to use the software to analyze the economic impact of the credit in order to complete the biennial report.

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

According to the American Rescue Plan Act (ARPA) Net Tax Reduction Calculation Update memo released by the Department of Administration on 8/28/2023, the remaining margin for tax reductions before triggering potential SLFRF recoupment at \$113 million for fiscal year 2024 and \$319 million for fiscal year 2025. This bill will reduce these margins.

### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

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  Updated     
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|  |  |                     |
|--|--|---------------------|
| <b>LRB Number</b> 23-4262/1  | <b>Introduction Number</b> SB-0970             |                     |
| <b>Description</b><br>creating a digital interactive media tax credit, granting rule-making authority, and making an appropriation   |  |                     |
| <b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b><br><br>The bill has a one-time cost of \$124,000 for the creation of an application process, updating and creating forms, and reprogramming. |  |                     |
| <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   | 1,023,000                                      |                     |
| Local Assistance   |  |                     |
| Aids to Individuals or Organizations   | 35,500,000                                     |                     |
| <b>TOTAL State Costs by Category</b>   | <b>\$36,523,000</b>                            | <b>\$</b>           |
| <b>B. State Costs by Source of Funds</b>   |  |                     |
| GPR  | 36,523,000                                     |                     |
| 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  | \$   | \$-9,000,000        |
| GPR Earned   |  |                     |
| FED  |  |                     |
| PRO/PRS  |  |                     |
| SEG/SEG-S  |  |                     |
| <b>TOTAL State Revenues</b>  | <b>\$</b>                                      | <b>\$-9,000,000</b> |
| <b>NET ANNUALIZED FISCAL IMPACT</b>  |  |                     |
|  | <u>State</u>                                   | <u>Local</u>        |
| NET CHANGE IN COSTS  | \$36,523,000                                   | \$                  |
| NET CHANGE IN REVENUE  | \$-9,000,000                                   | \$                  |
| <b>Agency/Prepared By</b>  | <b>Authorized Signature</b>                    | <b>Date</b>         |
| DOR/ Zach Petersen (608) 267-2428  | Michael Oakleaf (608) 261-5173                 | 2/5/2024            |