



## WISCONSIN LEGISLATIVE COUNCIL AMENDMENT MEMO

**2005 Senate Bill 103**

**Senate Substitute  
Amendment 2 and Senate  
Amendment 1 to Senate  
Substitute Amendment 2**

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### **Current Law**

Current law provides a state research tax credit to corporations. The credit is 5% of the amount obtained by subtracting, from the corporation's qualified research expenses (as defined in federal law) incurred for research conducted in Wisconsin in the taxable year, the corporation's base amount (as defined in federal law). The taxpayer may elect an alternative computation method that is provided under federal law. Any unused balance of the credit may be carried forward for the following 15 taxable years.

Current law also provides an *additional* 5% research credit for qualified research expenses that are incurred in a development zone.

Current law also provides a credit of 5% of the amount paid or incurred by a corporation during the taxable year to construct and equip new facilities or expand existing facilities used in this state for qualified research. Eligible amounts include any amounts paid or incurred for tangible, depreciable property but do not include amounts paid or incurred for replacement property.

### **2005 Senate Bill 103**

2005 Senate Bill 103 provides a 10% credit for qualified research expenses related to manufacturing internal combustion engines for vehicles, including expenses related to designing vehicles that are powered by such engines, for such research that takes place in Wisconsin. "Vehicle" is defined as any vehicle or frame in which or on which an engine is mounted for use in mobile or stationary applications. "Vehicle" includes any truck, tractor, motorcycle, snowmobile, or generator, but does not include any automobile, bus, or aircraft. The bill also provides a 10% credit to construct and equip new facilities or expand existing facilities that are used in this state for qualified research related

to manufacturing internal combustion engines, including expenses related to designing vehicles that are powered by such engines.

### Senate Substitute Amendment 2

Senate Substitute Amendment 2 is the same as the original bill, except for the following:

- It provides that an “internal combustion engine” includes substitute products such as fuel cell, electric, and hybrid drives.
- It provides that the research credit under the bill is for research related to *designing* internal combustion engines for vehicles, rather than research related to *manufacturing* them.
- It provides that if a corporation claims both the 5% research tax credit *and* the 10% credit for research on designing internal combustion engines, the corporation may use a different computation method for the 10% research credit, and may choose to change the computation method once for each credit with the Department of Revenue’s approval.
- It provides that a vehicle includes parts, accessories, and component technologies, and adds all-terrain vehicle, boat, personal watercraft, construction equipment, lawn and garden maintenance equipment, automobile, van, sports utility vehicle, motor home, bus, or aircraft to the definition of “vehicle.”
- It adds research for improving production processes for such engines and vehicles, as activities eligible for the 10% credit.

### Senate Amendment 1

Senate Amendment 1 to Senate Substitute Amendment 2 makes the credit effective for taxable years beginning after December 31, 2007. (The original bill, and Senate Substitute Amendment 2, made the credit effective in taxable years beginning December 31, 2006.)

### Legislative History

The Senate Committee on Job Creation, Economic Development and Consumer Affairs held a public hearing on the bill on April 19, 2005. The committee took executive action on the bill on May 27, 2005. It recommended adoption of Senate Substitute Amendment 2 by a vote of Ayes, 4; Noes, 1, and recommended passage of the bill, as amended, by a vote of Ayes, 4; Noes, 1. On December 5, 2005, the Joint Committee on Finance recommended introduction and adoption of Senate Amendment 1 to Senate Substitute Amendment 2 by a vote of Ayes, 14; Noes, 2; and recommended adoption of Senate Substitute Amendment 2, as amended by a vote of Ayes, 11; Noes, 3.

LR:jal:tlu