



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #803

### **Implementation Issues Relating to Revenue Enhancements to the Veterans Trust Fund (DVA -- Veterans Trust Fund)**

[LFB 2005-07 Budget Summary: Page 517, #8 and #9]

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#### **CURRENT LAW**

##### **Veterans and Military Specialty License Plates**

There are currently 40 different veterans and military special group license plates issued by the Department of Transportation (DOT). A fee of \$15 is collected by DOT for the issuance and the reissuance of all special group license plates. These additional fees are credited to the transportation fund.

##### **Veterans Trust Fund Tax Check-Off**

No provision.

#### **GOVERNOR**

##### **Veterans and Military Special License Plates**

Establish a new, annual \$15 fee for the issuance or renewal of 40 different veterans and military special group license plates to be credited to the veterans trust fund. Create a new special group license plate for persons interested in supporting veterans. Specify that this new plate would also have an additional issuance and renewal fee of \$15 to be credited to the veterans trust fund. The *Executive Budget Book* indicates that only the proceeds from the new license plate would be credited to the veterans trust fund; however, the bill would apply this new annual fee of all current law veterans military specialty plates.

Specify that individuals who purchase veterans or military specialty plates would pay \$30 for annually renewed plates or \$45 for biennially renewed plates in the year of issuance or reissuance of such a license plate [\$15 for each annually renewed plate or \$30 for each biennially renewed plate would be credited to the veterans trust fund and \$15 for each type of plate would be credited to the transportation fund]. The \$15 (annual) or \$30 (biennial) fee attributable to the veterans trust fund would apply in subsequent years each time the license plates are renewed.

Specify that the new \$15 fee credited to the veterans trust fund could be deducted as a charitable contribution for purposes of Wisconsin income and franchise taxes to the extent permitted under the statutes. Under current law, charitable contributions are allowed as deductions from corporate taxes to the extent permitted by federal law. Under the individual income tax, however, charitable contributions permitted as federal itemized deductions are used in calculating the state's itemized deduction credit (which is 5% of the excess of certain allowable federal itemized deductions over the state's sliding scale standard deduction).

### **Veterans Trust Fund Tax Check-Off**

Create tax check-offs on the individual income and corporate income and franchise tax forms for donations to the veterans trust fund. Authorize every individual or corporate taxpayer who has a tax liability or is entitled to a tax refund to designate on the return any amount of additional payment or any amount of a refund due that taxpayer as a donation to the veterans trust fund.

Specify that if a taxpayer owed any tax, the taxpayer would remit the tax due and the amount designated for the donation to the veterans trust fund. If the taxpayer were owed a refund, the Department of Revenue (DOR) would deduct the amount designated for the veterans trust fund from the amount of the refund.

Stipulate that if a taxpayer placed any conditions on a designation for the veterans trust fund, the designation would be void. In such a case, DOR would disregard the designation and determine the amounts due, owed, refunded, and received without regard to the void designation.

Direct the Secretary of DOR to provide places for the designations on the tax returns. In addition, require the Secretary to certify on or before September 15, each year to DVA, DOA, and the State Treasurer: (1) the total costs incurred by DOR in administering the tax check-offs to the veterans trust fund during the previous fiscal year; (2) the total amount of designations received during the previous fiscal year; and (3) the net amount remaining after the deduction of administrative costs. These remaining amounts would be credited to the veterans trust fund.

Specify that these provisions would first apply to taxable years beginning on January 1 of the year in which the bill takes effect, except that if the biennial budget bill takes effect after July 31, the provisions would first apply to taxable years beginning on January 1 of the following year.

## **DISCUSSION POINTS**

### **Veterans and Military Specialty License Plates**

1. Currently, several different types of fees are assessed by DOT in connection with the issuance of specialty plates. A fee attached to the issuance of a specialty plate is assessed only when the plate is first purchased or is reissued; however, when the plate is renewed each year, that fee is not reassessed. From time to time (currently every seven years although the bill would eliminate the requirement that the plates be reissued on a fixed schedule), license plates are reissued, at which time the specialty plate issuance fee is assessed. There are also annual plate renewal fees, assessed for certain types of special plates for the purpose of generating revenue for certain programs, such as the endangered resources plate or the University of Wisconsin plates. Further, some license plates have a biennial renewal at which time twice the fee is assessed.

2. DVA's biennial budget request proposed that certain specialty plate issuance and reissuance fees be earmarked for the veterans trust fund. This proposal was part of the agency's 10-year solvency plan for the veterans trust fund. The Department requested that the current \$15 issuance and reissuance fee for 40 different veterans and military special group license plates be credited to the veterans trust fund rather than to the transportation fund, that a new specialty plate be created for persons interested in supporting veterans, and that the \$15 issuance and reissuance fee for this new plate also be credited to the veterans trust fund.

3. The Department estimated that revenue from these earmarked fees would generate \$500,000 annually, and the agency's current 10-year solvency plan for the veterans trust fund continues to reflect this level of annual revenues from these specialty plate fees. However, based on the current license plate data for veterans and military plates, it appears unlikely that this amount of revenue would be generated.

4. Currently, DOT collects an additional fee of \$15 for the initial issuance and reissuance of all special group license plates, and these additional fees are credited to the transportation fund. According to DOT, approximately 1,300 new license plate issuances for the current veterans and military special groups are made each year, resulting in special issuance fee revenue of \$19,500 annually.

5. It is expected that all of the veterans and military special group license plates will be reissued, starting in 2005-06, resulting in the reissuance of an estimated 17,900 plates through February, 2006. As a result, the additional revenues to the veterans trust fund (under the agency's original proposal) would be projected at \$288,000 in 2005-06 (\$19,500 from new plate issuances for the current veterans and military special groups and \$268,500 from reissuances). Likely revenues in 2006-07 from new plate issuances for the current veterans and military special groups would be projected at \$19,500.

6. It is reasonable to assume that the creation of a "Friends of Veterans" license plate would generate a similar level of interest as generated by the current "Celebrate Children" license

plate for which revenues are credited to the children's trust fund. The Celebrate Children plate generated 2,200 initial sales in 1999 and there are currently approximately 5,200 such license plates issued. If the Friends of Veterans plate drew similar initial support and grew by a comparable rate, additional revenues of \$33,000 would be generated in 2005-06 from the initial issuance of the plate with an additional 600 plates expected to be issued in the following year, representing further revenues of \$9,000. Table 1 summarizes the estimated revenue that would be generated for the veterans trust fund under the Department's original proposal.

**TABLE 1**  
**Projected Military Specialty Plates Revenues**  
**(Agency Request)**

<u>Source of Revenue</u>	<u>2005-06</u>	<u>2006-07</u>
Reissuance for Current Plates	\$268,500	\$0
New Requests for Current Plates	19,500	19,500
Issuance of "Friends of Veterans" Plate	<u>33,000</u>	<u>9,000</u>
	\$321,000	\$28,500

7. Under the agency's original proposal, all of the revenues listed in Table 1 represented revenue reductions (or new revenue foregone) to the transportation fund.

8. The Governor's recommendation significantly modified the agency's original request by providing an additional annual \$15 fee for all of the 40 veterans and military special group license plates, similar to the annual fees for the current revenue-generating special plates. Revenues from this fee would be credited to the veterans trust fund. Individuals would pay \$30 for annually renewed veterans or military plates or \$45 for biennially renewed plates [\$15 for each annually renewed plate or \$30 for each biennially renewed plate would be credited to the veterans trust fund and \$15 for each type of plate would be credited to the transportation fund]. The \$15 (annual) or \$30 (biennial) fee attributable to the veterans trust fund would apply in subsequent years each time the license plates are renewed.

9. In addition, under the bill, the Governor has recommended increasing the registration fee for automobiles, vans, and sports utility vehicles by \$10 (from \$55 to \$65) and for the three light truck weight classifications registration fees would increase between \$9.50 to \$16.50.

10. Thus, for individuals who might choose to purchase veterans or military specialty plates, the Governor's recommendation would increase these fees by an additional \$15 annually. Consequently, all the proposed changes in the bill would increase the registration fee for passenger vehicles, for example, with military specialty plates to \$95 for an initial issuance and to \$80 per year for a renewal. It could be argued, therefore, that these combined increases would have a dampening effect on some vehicle owners' choice to purchase veterans or military specialty plate.

11. Notwithstanding this concern, it may also be the case that some individuals who purchase military and veterans specialty plates would continue to do so knowing that a portion of the fees collected would be directed to the veterans trust fund.

12. With approximately 17,900 veterans and military specialty plates currently being issued, an additional \$268,500 annually in revenues would be projected for the veterans trust fund, once the new fees were fully phased in.

13. Under the bill, it is estimated that an additional \$201,400 in 2005-06 (due to the time of the issuance of renewal notices) and \$268,500 in 2006-07 would be credited to the veterans trust fund. Further, new requests for new current plates would result in \$19,500 annually of additional revenues to the veterans trust fund. Finally, assuming the same revenue estimates cited above for the issuance of a new "Friends of Veterans" plates, an additional \$33,000 in 2005-06 and \$42,000 in 2006-07 would be credited to the veterans trust fund from these new plates. Table 2 summarizes the projected revenue stream to the veterans trust fund under the bill.

**TABLE 2**

**Projected Military Specialty Plates Revenues  
(AB 100)**

<u>Source of Revenue</u>	<u>2005-06</u>	<u>2006-07</u>
Renewal of Current Plates	\$201,400	\$268,500
New Requests for Current Plates	19,500	19,500
Issuance and Renewal of Friends of Veterans plate	<u>33,000</u>	<u>42,000</u>
	\$253,900	\$330,000

14. The State Budget Office has now advised that it was the Governor's intent only to create a new "Friends of Veterans" specialty license plate and provide that the revenues generated from an additional \$15 issuance and renewal fee for those license plates be deposited in the veterans trust fund. As summarized above, it is estimated 2,200 individuals might initially apply for this plate in 2005-06, resulting in veterans trust fund revenues of \$33,000 in 2005-06. The following year 2,800 individuals [600 new issuances and 2,200 renewals] would pay an estimated \$42,000 in 2006-07 to the veterans trust fund.

15. Under any of the above scenarios, the estimated revenue stream to the Department would be significantly less than the agency has projected under its 10-year solvency plan. Compared to the Department's current projection of \$500,000 annually in trust fund revenues from specialty plate issuance, reissuance and renewal fees, the estimated revenues under the bill would represent reduction in trust fund revenues of \$246,100 in 2005-06 and \$167,000 in 2006-07.

16. Under the Governor's revised recommendation, estimated revenues to the trust fund

would represent a reduction (compared to the Department's current projections) of \$467,000 in 2005-06 and \$458,000 in 2006-07. Reduced revenues to the trust fund would shorten the period during which the trust fund would remain solvent.

17. With respect to the proposed new "Friend of Veterans" license plate, DOT has traditionally been allowed to recover costs related to the initial design of a specialty plate. If the Committee wishes to authorize DOT to recover its costs, language should be added that permits DOT to retain for deposit in the transportation fund an amount from revenue generated by the Friends of Veterans plate equal to the agency's initial costs of producing the plate, or \$27,600 SEG, whichever amount is less. [The current estimate of the cost of producing a revenue generating plate is \$27,600.] Based on these costs, the estimated revenue that would otherwise be transferred to the veterans trust fund would be decreased by \$27,600 in 2005-06 under this alternative.

### **Veterans Trust Fund Tax Check-Off**

18. Currently, there are three programs to which certain tax filers may donate additional payments or decrease the amount of a refund by using a tax check-off: endangered species, professional football districts, and (beginning with the 2004 tax year) breast cancer research.

19. For 2003 tax returns, \$626,100 was donated for endangered species and \$133,200 was donated for professional football districts. Preliminary results from 2004 tax returns (processed through April 29, 2005) show that \$349,700 has been donated to endangered resources, \$243,600 has been donated to breast cancer research, and \$63,500 has been donated for professional football districts.

20. It is unknown the amount of tax filer donations that might be made to the veterans trust fund. Further, it is unknown the degree to which the existence of these other current law donation opportunities would affect the likelihood that a tax filer might choose to make a donation to the veterans trust fund. Currently, the Department is estimating that it will receive \$500,000 annually in tax filer donations. Under the current designation options, only the endangered resources donation exceeds the \$500,000 level.

21. The Department has raised a concern with respect to the language in the bill stipulating that if the biennial budget is not enacted before July 31, 2005, the tax check-off provision would not apply until tax year 2006 returns are filed in 2007. Such an occurrence would mean that the veterans trust fund would receive check-off donations only in the 2006-07 fiscal year.

22. The Department has proposed more open-ended language specifying that the veterans trust fund tax check-off provision would first apply to taxable years beginning on January 1 of the year in which the provision takes effect (that is, tax year 2005 filed in 2006), regardless of the general effective date of the biennial budget act.

23. DOR has raised concerns that a delayed enactment of the biennial budget act containing DVA's alternative initial applicability provision could cause problems in getting 2005 tax forms printed in a timely manner. DOR has advised that it would be difficult to delay the

finalization of the 2005 tax forms beyond August 31, 2005, and still ensure that they be submitted to the printer in a timely fashion. If the Committee wishes to modify the initial applicability provision, it may wish to provide that the check-off provisions would first apply to taxable years beginning on January 1 of the year in which the bill takes effect, except that if the biennial budget bill takes effect after August 31 (rather than July 31 under the bill), the provisions would first apply to taxable years beginning on January 1 of the following year.

## ALTERNATIVES

### A. Veterans and Military Specialty License Plates

1. Approve the Governor's recommendation to provide for an additional annual \$15 fee for the issuance or renewal of 40 different veterans and military special group license plates to be credited to the veterans trust fund and create a new special group license plate for persons interested in supporting veterans. Provide an additional issuance and renewal fee of \$15 to be credited to the veterans trust fund. Reestimate veterans trust fund revenues by \$253,900 in 2005-06 and \$333,000 in 2006-07.

<u>Alternative A1</u>	<u>SEG-REV</u>
<b>2005-07 REVENUE</b> (Change to Bill)	\$586,900

2. Approve the Governor's revised recommendation to create the new specialty license plate for persons interested in supporting veterans and specify that revenues generated from the \$15 additional issuance and renewal for those license plates be deposited in the veterans trust fund. Reestimate veterans trust fund revenues by \$33,000 in 2005-06 and \$42,000 in 2006-07.

<u>Alternative A2</u>	<u>SEG-REV</u>
<b>2005-07 REVENUE</b> (Change to Bill)	\$75,000

3. Approve the agency's original request to specify that the current \$15 issuance and reissuance fee for 40 different veterans and military special group license plates be credited to the veterans trust fund rather than to the transportation fund, that a new specialty plate be created for persons interested in supporting veterans and that the \$15 issuance and reissuance fee for this new plate be credited to the veterans trust fund. Reestimate veterans trust fund revenues by \$321,000 in 2005-06 and \$28,500 in 2006-07. Decrease revenues to the transportation fund by \$288,000 in 2005-06 and \$19,500 in 2006-07.

<u>Alternative A3</u>	<u>SEG-REV</u>
<b>2005-07 REVENUE</b> (Change to Bill)	\$42,000

4. Delete the Governor's recommendation.

5. *In addition to Alternative A1, A2, or A3*, authorize DOT to retain for deposit in the transportation fund, an amount from revenue generated by the friends of veterans plate equal to its initial costs of producing the plate, or \$27,600 whichever amount is less. Based on these costs, the revenues credited to the transportation fund would be increased by \$27,600 in 2005-06 and the revenues credited to the veterans trust fund would be decreased by a comparable \$27,600 in 2005-06.

**B. Veterans Trust Fund Tax Check-Off**

1. Approve the Governor's recommendation to create tax check-offs on the individual income and corporate income and franchise tax forms for donations to the veterans trust fund, authorize every individual or corporate taxpayer who has a tax liability or is entitled to a tax refund to designate on the return any amount of additional payment or any amount of a refund due that taxpayer as a donation to the veterans trust fund, and specify that these provisions would first apply to taxable years beginning on January 1 of the year in which the biennial budget bill takes effect, except that if the bill takes effect after July 31, the provisions would first apply to taxable years beginning on January 1 of the following year.

2. Approve the Governor's recommendation with a revised initial applicability provision that would specify that the check-off provisions would first apply to taxable years beginning on January 1 of the year in which the biennial budget bill takes effect, except that if the bill takes effect after August 31 (rather than July 31 under the bill), the provisions would first apply to taxable years beginning on January 1 of the following year.

3. Delete the Governor's recommendation.

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