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2017 Joint Committee on Finance Paper #291

Manufacturing and Agriculture Tax Credit and Taxes Paid to Other States Tax Credit Interaction (General Fund Taxes -- Income and Franchise Taxes)

[LFB 2017-19 Budget Summary: Page 177, # 4]

CURRENT LAW

The manufacturing and agriculture tax credit (MAC) may be claimed by individual and corporate tax filers. For business owners who file under the individual income tax, the credit is equal to 7.5% of the claimant's eligible qualified production activities income, as defined under the Internal Revenue Code, that is derived from manufacturing and agriculture property in Wisconsin. The credit may be used to offset the alternative minimum tax, but may not be used to offset taxes on other sources of income.

A credit for taxes paid to other states is available to taxpayers who are Wisconsin residents and who paid tax on the same income both to Wisconsin and to another state, including the District of Columbia. The credit is equal to the amount of tax paid to the other state on the same income that is subject to Wisconsin taxation.

GOVERNOR

Effective in tax year 2017, modify the manufacturing and agriculture tax credit under the individual income tax by requiring that the amount of the eligible qualified production activities income that a taxpayer may claim in computing the MAC must be reduced by the amount of such income taxed by another state upon which the other state tax credit may be claimed. Increase individual income tax collections by an estimated $9,700,000 annually. Under current law, Wisconsin manufacturing and agriculture (qualified production activities) income that is also subject to tax in another state can be used to calculate both the MAC and the other state tax credit. This provision would prohibit that treatment by limiting the amount of income used to calculate the manufacturing and agriculture tax credit.

MODIFICATION

Delete the phrase "may be claimed" and replace it with "is claimed".

Explanation: This change is an errata submission from DOA. The purpose of the original proposal is to prevent a double tax benefit where taxpayers could claim two separate credits for the tax imposed on the same income. As drafted, the proposal would "force" the taxpayer to claim the credit against that income under the taxes paid to other states credit, rather than under the MAC. This modification would give the taxpayer the option of choosing which credit to claim, while still preventing the taxpayer from claiming two credits relative to the same income. DOR indicates that the modification better reflects the proposal's original intent, so no change to the provision's fiscal effect is necessary.

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