

### Fiscal Estimate - 2021 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 21-1292/1	<b>Introduction Number</b> AB-0002
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**Description**  
 various changes to the laws administered and enforced by the Department of Revenue

**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"/> Indeterminate	<input checked="" type="checkbox"/> Decrease Existing Revenues	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<input checked="" type="checkbox"/> Increase Existing Appropriations		<input type="checkbox"/> Decrease Costs
<input type="checkbox"/> Decrease Existing Appropriations		
<input type="checkbox"/> Create New Appropriations		

**Local:**

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

<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> DOR/ Michael Oakleaf (608) 261-5173	<b>Authorized Signature</b> Jamie Adams (608) 266-6785	<b>Date</b> 1/19/2021
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## Fiscal Estimate Narratives

DOR 1/19/2021

LRB Number	21-1292/1	Introduction Number	AB-0002	Estimate Type	Original
<b>Description</b> various changes to the laws administered and enforced by the Department of Revenue					

### Assumptions Used in Arriving at Fiscal Estimate

Based on the descriptions below, the bill would increase GPR-Earned by an estimated \$31,000 annually. In addition, it would decrease refunds on utility license fees by an estimated \$25,000 annually. The bill would also increase income and franchise tax revenue by an estimated \$100,000 in FY21, and reduce revenue by an estimated \$11.4 million in FY22, and \$11.4 million in FY23. Finally, it would increase expenditures by an estimated \$340,000 annually beginning in FY21.

### SHARED REVENUE - REIMBURSEMENT AMOUNTS

This bill provides that all such reductions are from the payment of all shared revenue components that the counties and municipalities receive on the fourth Monday in July and the third Monday in November. This provision has no fiscal effect.

### SHARED REVEUNE - EXPENDITURE RESTRAINT PAYMENTS

The bill allows municipalities to receive their entire expenditure restraint before the fourth Monday in July, upon certification by DOR. The bill also modifies the consumer price index provision so that it is for the 12 months ending on August 31 instead of the 12 months ending September 30. These provisions have no fiscal effect.

### PROPERTY TAX - OMITTED PROPERTY

The bill modifies the \$5,000 threshold so that the clerk reports the omitted taxes that are \$250 or more for any single description of property. The bill also provides that the clerk may not list an omitted tax that was levied on property within a tax incremental district unless the current value of the district is lower than the tax incremental base. These provisions have no fiscal effect.

### PROPERTY TAX - OBJECTIONS (MANUFACTURING ASSESSMENTS)

Current law requires a person who files an objection to the assessment of the person's manufacturing property to pay a \$45 fee. The bill increases the filing fee to \$200. The department estimates that the bill will increase GPR-earned by \$31,000 on an annual basis.

### PROPERTY TAX - LICENSE FEES (UTILITY TAXES)

The bill changes the filing and determination dates for a railroad company so that those dates are the same as those for other public utilities. The bill also decreases the interest rate paid on refunds of license fees paid by public utilities from 9 percent to 3 percent. The department estimates the provision will reduce refunds of license fees paid by approximately \$25,000 on an annual basis.

### PROPERTY TAX - BOARD OF REVIEW

The bill requires all members of the board of review to complete the training each year, except that only one member needs to attend training in-person each year. The provision is expected to have a minimal local fiscal effect.

### PROPERTY TAX - ASSESSOR CERTIFICATION

The bill allows DOR to determine the amount of the fee for an assessor certification examination on the basis of DOR's estimate of the actual cost to administer and grade the examination, but the fee may not exceed \$75. The bill also allows DOR to determine the recertification fee. The provision is expected to have no net fiscal impact.

## PROPERTY TAX - LEVY LIMIT JOINT FIRE DEPARTMENTS

The bill modifies the consumer price index provision for the joint fire department levy limit exception so that it is for the 12 months ending on August 31 (instead of the 12 months ending September 30) of the year of the levy. This provision is expected to have no fiscal effect.

## PROPERTY TAX – LEASING PROPERTY OWNED BY A CHURCH OR RELIGIOUS ORGANIZATION

Current law provides a property tax exemption for property owned by educational associations and institutions, benevolent associations, churches, and religious associations. Leasing such property does not render the property taxable provided the lessor uses the leasehold income for maintenance or construction debt retirement of the leased property. Current law allows some leased property to retain its exemption regardless of how the leasehold income is used. Under the bill, leasing all or part of any property owned by a church or religious organization to an educational association or institution that is also exempt from taxation does not render the property taxable, regardless of how the lessor uses the leasehold income.

Under the bill, exempting taxable leased property would result in a tax shift to other taxable property. The statewide local fiscal effect is indeterminate as the department does not have complete parcel level data for such determination. For 2020-21 property taxes in the City of Milwaukee, the bill would result in a property tax shift of at least \$185,600 and a minimal property tax increase on other taxable properties.

## INCOME TAX - DISABILITY INCOME SUBTRACTION

The bill replaces an obsolete reference to the federal Internal Revenue Code with the language used to determine the claimant's eligibility that existed under the obsolete reference. This provision is expected to have no fiscal effect.

## INCOME TAX - HOMESTEAD CREDIT

The bill defines "earned income" for purposes of claiming the homestead credit as wages, salaries, tips, and other employee compensation that may be included in federal adjusted gross income for the taxable year, plus the amount of net earnings from self-employment. The bill also clarifies that an individual's primary income is from farming if the individual's gross income from farming for the year in which the claim relates is greater than 50 percent of the individual's total gross income from all sources for that year. The provision is expected to increase expenditures (refunds) by \$140,000 on an annual basis beginning in FY21.

## INCOME TAX - FINAL AUDIT DETERMINATIONS

Under current law, a taxpayer who receives a final audit determination from DOR has 90 days to report to DOR any changes or corrections related to that determination. The bill increases the time for providing that report to 180 days. The provision has no fiscal effect.

## INCOME TAX - HISTORICAL REHABILITATION CREDIT

The bill modifies the procedure for transferring the historic rehabilitation tax credit so that the person transferring the credit may file a claim for more than one taxable year. The provision has no fiscal effect.

## INCOME TAX – INTERNAL REVENUE CODE

The bill adopts for Wisconsin tax purposes selected provisions of the following federal acts: Bipartisan Budget Act of 2018 (P.L. 115-123); Consolidated Appropriations Act of 2018 (P.L. 115-141); Taxpayer First Act (P.L. 116-25); FUTURE Act (P.L. 116-91); National Defense Authorization Act for Fiscal Year 2020 (P.L. 116-92); Further Consolidated Appropriations Act of 2020 (P.L. 116-94); Virginia Beach Strong Act (P.L. 116-98); Families First Coronavirus Response Act (P.L. 116-127); and Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136).

Adoption of the provisions of these federal acts will result in an increase of income and franchise tax revenue of an estimated \$100,000 in FY21, and a reduction in income and franchise tax revenue of an estimated \$1.9 million FY22 and FY 23.

## INCOME TAX – MEDICAL CARE INSURANCE SUBTRACTION

This bill modifies the income tax subtraction for amounts paid for medical care insurance by self-employed individuals. Under current law, the subtraction may not exceed the individual's net earnings from a trade or

business that are taxable by Wisconsin. Under the bill, the subtraction may not exceed the individual's wages, salary, tips, unearned income, and net earnings from a trade or business that are taxable by Wisconsin.

The bill similarly modifies the provision under current law that prorates the subtraction for self-employed nonresidents and part-year residents based on the percentage of the individual's net earnings from a trade or business taxable by Wisconsin to total net earnings from a trade or business. Under the bill, the subtraction is prorated based on the percentage of the individual's wages, salary, tips, unearned income, and net earnings from a trade or business that are taxable by Wisconsin to total wages, salary, tips, unearned income, and net earnings from a trade or business.

The law change will result in a revenue loss of up to \$9.5 million annually beginning in fiscal year 2022.

#### INCOME TAX – PAYMENTS FROM A RETIREMENT PLAN

This bill removes the low-income retirement income exclusion from the exempt income section and puts a comparable provision as an optional subtraction from income. Allowing taxpayers the option to claim the deduction allows some retirees to claim a larger medical care insurance subtraction for homestead credit purposes.

The law change will result in an increase in expenditures for homestead credit claims of approximately \$200,000 annually beginning in fiscal year 2021.

#### SALES TAX – UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY

The bill provides a sales and use tax exemption for tangible personal property sold to a construction contractor who transfers the property to the University of Wisconsin Hospitals and Clinics Authority (UWHCA) as part of constructing a facility for the authority in this state.

The UWHCA is able to purchase such materials without tax under current law. The bill extends the exemption to the contractors making the materials purchases that are currently not subject to tax. As a result of current law and purchasing practices by UWHCA, there is no reduction in state and local sales tax revenue as a result of the bill.

#### SALES TAX - PROPERTY TRANSFERRED WITH SERVICES

Current law provides that persons providing landscaping, printing, fabricating, processing, or photographic services or performing services to tangible personal property may purchase for resale, without paying the sales tax, items that the person will transfer to a customer in conjunction with providing a service that is subject to the sales tax. The bill provides that the exemption applies regardless of whether the service is taxable. The provision is expected to have no fiscal effect given the current practices of filers.

#### SALES TAX - NONPROFIT ORGANIZATIONS

The bill provides that the exemption applies to organizations that are exempt from federal taxation under section 501 (c) (3) of the Internal Revenue Code and have received a determination letter for the Internal Revenue Service. The bill also provides that the exemption applies to churches and religious organizations that meet the requirements of section 501 (c) (3) of the Internal Revenue Code, but are not required to apply for or obtain tax-exempt status from the IRS. The department does not anticipate the provision to have a fiscal impact.

#### SALES TAX - OUT-OF-STATE RETAILER

Under the bill, an out-of-state retailer that has annual gross sales into this state in excess of \$100,000 in the previous or current calendar year must register with DOR and collect the sales tax on those sales. The provision is expected to have a minimal fiscal effect.

#### SALES TAX - DISCLOSURE OF SALES TAX RECORDS TO LEGISLATIVE AUDIT BUREAU

The bill allows the state auditor and Legislative Audit Bureau to examine sales and use tax returns and related documents to the extent necessary for the bureau to carry out its duties. This provision has no fiscal effect.

#### OTHER - PAYMENTS FROM COUNTIES TO TOWNS

Under current law, during the period beginning on the third Monday of March and ending ten days after the

annual town meeting, a county treasurer may not pay to a town treasurer any money that belongs to the town and that is in the hands of the county treasurer except upon a written order of the town board. The bill eliminates this restriction. This provision has no fiscal effect

### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2021 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 21-1292/1	<b>Introduction Number</b> AB-0002	
<b>Description</b> various changes to the laws administered and enforced by the Department of Revenue		
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>		
<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		
Local Assistance		
Aids to Individuals or Organizations	340,000	
<b>TOTAL State Costs by Category</b>	<b>\$340,000</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>		
GPR	340,000	
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, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$25,000	\$-11,400,000
GPR Earned	31,000	
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$56,000</b>	<b>\$-11,400,000</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$340,000	\$
NET CHANGE IN REVENUE	\$-11,344,000	\$
<b>Agency/Prepared By</b>		
<b>Authorized Signature</b>		<b>Date</b>
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		1/19/2021