



Legislative Fiscal Bureau

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February 25, 2014

TO: Representative Chris Taylor
Room 306 West, State Capitol

FROM: Sean Moran, Fiscal Analyst

SUBJECT: Proposed Changes to the Manufacturing and Agriculture Tax Credit

At your request, I am providing information regarding the estimated fiscal impact of your proposal to reduce the manufacturing and agriculture tax credit (MAC) under the individual income tax and the corporate income/franchise tax.

For corporate filers, the MAC is equal to a specified percentage multiplied by the lesser of a claimant's: (a) eligible qualified production activities income (QPAI), as defined under the Internal Revenue Code (IRC), derived from manufacturing or agricultural property in Wisconsin; (b) income apportioned to Wisconsin for state corporate income/franchise tax purposes; or (c) income determined as taxable under state combined reporting provisions. For business owners who file under the individual income tax, the credit is equal to a specified percentage of the claimant's eligible QPAI, as defined under the IRC, that is derived from manufacturing or agricultural 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. The specified tax credit percentages are phasing in over a four-year period as follows:

- a. 1.875% for tax years beginning after December 31, 2012, and before January 1, 2014;
 - b. 3.75% for tax years beginning after December 31, 2013, and before January 1, 2015;
 - c. 5.526% for tax years beginning after December 31, 2014, and before January 1, 2016;
- and
- d. 7.5% for tax years beginning after December 31, 2015, and annually thereafter.

The MAC is currently estimated to reduce state tax revenues by \$79.9 million in 2013-14, \$151.5 million in 2014-15, \$224.6 million in 2015-16, and \$284.5 million in 2016-17 once the credit has been fully phased in. The actual amount of credits claimed and used in tax year 2013, the first year in which the credit was available, will not be known until 2016.

You asked what the fiscal impact would be of setting the maximum credit percentage at

3.75%, as was applicable for tax year 2014, if the proposal were enacted as part of the biennial budget. Under the current version of the biennial budget bill, the general effective date is July 1, 2015, or on the day after publication, whichever is later. The Department of Revenue estimates that your proposal would increase state revenues by \$95.6 million in 2015-16, and \$130.8 million in 2016-17 and annually thereafter. Adding these two numbers together, this proposal would increase state revenues by an estimated \$226.4 million over the 2015-17 biennium.

Under current law, interest generally accrues for underpayment of estimated taxes by individual and corporate filers at a rate of 12% per year. Individuals and corporate filers who lowered their estimated tax payments based on the assumed higher credit rate of the manufacturing and agriculture tax credit in tax year 2015 could be subject to accrued interest of 12%. The state has provided exemptions to the interest rate on a one-time basis, such as for a taxpayer's underpayment of estimated taxes due to the increase in the top tax rate that was included in 2009 Wisconsin Act 28. A similar exemption could be included in your proposal to prevent taxpayers from paying interest for underpayment of year-to-date estimated payments.

I hope this information responds to your request, please contact me with any further questions.

SM/sas