**Legislative Fiscal Bureau**

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb


February 19, 2014

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: January 2014 Special Session AB 1 and SB 1: General Fund Taxes and Property Taxes

On January 23, 2014, Governor Walker called the Legislature into special session to address two bills. One of the bills (AB LRB 4039/1 and companion SB LRB 4066/1) relates to general fund taxes and property taxes. The bills were introduced by the Organization Committees of the two houses as SS AB 1 and SS SB 1.

SS SB 1 was referred to the Joint Committee on Finance on January 30. On February 4, SS AB 1 was referred to the Assembly Committee on Jobs, Economy and Mining. On February 10, that Committee recommended the bill for passage, as amended, on a vote of 9-6. On February 11, the bill was taken up by the Assembly and passed, as amended, on a vote of 62-37. On February 12, it was referred to the Joint Committee on Finance.

The Assembly adopted four amendments to the bill: Assembly Amendments 2, 3, and 4, and Assembly Amendment 1 to AA 4. Following is a description of the amendments adopted by the Assembly.

**Assembly Amendment 2**

Assembly Amendment 2 would extend net business loss carryforwards from 15 to 20 years, for all corporations under the state corporate income/franchise tax, for tax years beginning on or after January 1, 2014. Also, the amendment would modify current law to specify that any federal changes to Internal Revenue Code (IRC) provisions related to depletion would be automatically adopted for state individual income and corporate income/franchise tax purposes, in the year in which they were effective.

Under current law, net business losses can be carried forward up to 20 years under the individual income tax, and pre-2009 net business losses of combined groups can also be carried forward up to 20 years under the corporate income/franchise tax. Net business losses that are not pre-2009 losses can be carried forward up to 15 years, under the corporate income/franchise tax. Net business losses cannot be carried back under the corporate income/franchise tax. The amendment would allow all net business losses to be carried forward up to 20 years under the state corporate income/franchise tax. Extending net business loss carryforwards to 20 years would have a minimal fiscal effect. A Department of Revenue review of corporate income/franchise tax returns showed that only a small number of corporations had net business loss carryforwards that were older than 15 years.

Under current law, state depletion provisions are referenced to the IRC in effect on January 1, 2014. The amendment would modify the current law provision to automatically adopt federal depletion provisions for state income and franchise tax when they are effective under federal law. This provision would have no fiscal effect, unless Congress enacted changes to IRC depletion provisions.

**Assembly Amendment 3**

Under SS AB 1(section 41), the definition of income for the homestead tax credit would be amended to require the add-back of net operating loss carry-backs. This would treat net operating loss carry-backs the same way that net operating loss carry-forwards are treated under current law. As drafted, the change under the bill would first apply to tax year 2014. However, this would allow loss carry-backs from this year and 2015 to be used to offset income for homestead tax credit purposes of amended tax returns for either 2012 or 2013.

Our office asked the Department of Revenue if this is what they intended. The Department indicated that this was not their intent and that they intended the bill provision to ensure that operating loss carry-backs would not be allowed to offset income for homestead tax credit purposes in any year. Assembly Amendment 3 modifies the bill so that the proposed change would first apply retroactively to tax year 2012, which is what the Department of Revenue intended.

**Assembly Amendment 4, as Amended by AA 1 to AA 4**

Assembly Amendment 4, as amended by AA 1 to AA 4, would allow construction contractors performing services for certain governmental and non-profit entities to purchase construction supplies for such projects tax-free.

Wisconsin imposes a general sales and use tax at a rate of five percent on the sales price of taxable goods and services sold or used in this state, with certain exceptions. Current law provides a general exemption from the state sales and use tax for purchases made by certain governmental and non-profit entities, including the entities listed below:

a. any county, city, village, town, or school district in this state; and

b. any corporation, community chest fund, foundation, or association organized and operated exclusively for religious, charitable, scientific, or educational purposes, or for the prevention of cruelty to children or animals (except hospital service insurance corporations), no part of the net income of which inures to the benefit of any private stockholder, shareholder, member, or corporation.

The amendment would extend the exemption from the state sales and use tax to include sales to a construction contractor who makes purchases of tangible personal property and, in fulfillment of a real property construction activity, transfers that property to an exempt entity described in "a" and "b" above, provided that the property were to become a component of a facility in Wisconsin that is owned by that exempt entity. For purposes of this exemption, a "facility" would mean any building, shelter, parking lot, parking garage, athletic field, athletic park, storm sewer, or water supply system. "Facility" would not include a highway, street, or road. The proposed exemption would take effect on July 1, 2015, and would first apply to contracts entered into on that date.

In general, construction contractors must pay sales and use taxes on their purchases of taxable goods and services under current law. However, if an entity exempt from the tax purchases property on behalf of the construction contractor, transfers those items to the contractor, and the items become a component of a real property construction in Wisconsin that is owned by the exempt entity, no sales and use tax is collected from the construction contractor under current law. Surveys of construction contractors indicate that many, but not all, local units of government and not-for-profit organizations purchase tax-exempt property to be used by contractors. Based on data from the U.S. Census Bureau, growth estimates from IHS Global Insight, Inc., and construction contractor surveys, it is estimated that the amendment would reduce state sales and use tax revenues by $7.5 million, annually, beginning in 2015-16. It should be noted that the estimated reduction in state tax revenue could vary from year to year depending on the number of construction projects authorized and entered into by the tax-exempt entities.

**Summary of Provisions of SS AB 1 and SS SB 1**

Attached is a summary of SS AB 1 and SS SB 1, as introduced. The attachment is taken from this office's January 28 document, "Summary of Provisions January 2014 Special Session Bills." The attachment begins with two tables. Table 1 is a 2013-15 general fund condition statement of the special session bills. Table 1 incorporates all legislation enacted to date in the current legislative session (thru 2013 Act 132). Table 2 displays the 2013-15 general fund fiscal effects of the provisions of the special session bills.

BL/sas
Attachment

# General Fund Taxes and Property Taxes

## (AB LRB 4039/1 and SB LRB 4066/1)

## TABLE 1

## 2013-15 General Fund Condition Statement

## January 2014 SS AB 1 and SB 1

| | 2013-14 | 2014-15 |
|---|---|---|
| **Revenues** | | |
| Opening Balance, July 1 | $759,205,000 | $616,807,900 |
| Taxes | 14,229,890,000 | 14,731,600,000 |
| Departmental Revenues | | |
| Tribal Gaming | 23,703,600 | 23,533,600 |
| Other | 576,818,000 | 535,113,000 |
| Total Available | $15,589,616,600 | $15,907,054,500 |
| Appropriations, Transfers, and Reserves | | |
| Gross Appropriations | $15,026,592,200 | $15,916,943,600 |
| Mental Health Bills (Acts 126 to 132) | 1,845,000 | 2,375,000 |
| Sum Sufficient Reestimates | -5,001,900 | -16,615,800 |
| Transfers to: | | |
| Transportation Fund | 60,877,000 | 143,837,100 |
| Veterans Trust Fund | 5,300,000 | 0 |
| Budget Stabilization Fund | 108,196,000 | 4,943,800 |
| Compensation Reserves | 78,752,200 | 133,056,500 |
| Less Lapses | -303,751,800 | -342,485,700 |
| Net Appropriations | $14,972,808,700 | $15,842,054,500 |
| Balance | | |
| Gross Balance | $616,807,900 | $65,000,000 |
| Required Statutory Balance | -65,000,000 | -65,000,000 |
| Net Balance, June 30 | $551,807,900 | $0 |

# TABLE 2

## 2013-15 General Fund Fiscal Effects

## January 2014 SS AB 1 and SB 1

| | 2013-14 | 2014-15 |
|---|---|---|
| **Revenues** | | |
| Income Tax Rate Reduction | -$2,100,000 | -$96,500,000 |
| Manufacturing and Agriculture Credit | -11,300,000 | -24,000,000 |
| Historic Rehabilitation Credit | 0 | -1,000,000 |
| Research Credit | 0 | -500,000 |
| Exclusion/Credit for Income From Relocated Business | -110,000 | -140,000 |
| Effect on Property Tax/Rent Credits Due to Reduced Property Tax Levies | 0 | 2,640,000 |
| Adjust Withholding Tables | -156,500,000 | -166,100,000 |
| Total | -$170,010,000 | -$285,600,000 |
| **Appropriations, Transfers, and Reserves** | | |
| Wisconsin Technical College System Property Tax Relief Aid | $0 | $406,000,000 |
| Effect on Homestead Tax Credits Due to Reduced Property Tax Levies | 0 | -790,000 |
| Effect on Veterans and Surviving Spouses Tax Credits Due to Reduced Property Tax Levies | 0 | -1,530,000 |
| Total | $0 | $403,680,000 |
| **Transfer** | | |
| Budget Stabilization Fund | $108,196,000 | $4,943,800 |
| **Effect on General Fund Balance** | **-$278,206,000** | **-$694,233,800** |

**Biennial Effect on General Fund Balance** **-$972,439,800**

# General Fund Taxes

## 1. INCOME TAX RATE REDUCTION

| GPR-Tax | - $98,600,000 |
|---|---|

Reduce the marginal tax rate that applies to income that falls within the bottom income tax bracket of the state's individual income tax from 4.4% to 4.0%, effective with tax years beginning after December 31, 2013, and modify employers' withholding tables to reflect the proposed rate reduction on April 1, 2014. Decrease estimated individual income tax collections by $2,100,000 in 2013-14 and $96,500,000 in 2014-15. The fiscal effect related to the revised withholding tables is reflected in a separate entry. The rate and bracket structures under current law and under the special session bills are shown below.

| Tax Year 2014 Tax Brackets | | | Tax Rates | |
|---|---|---|---|---|
| Single | Married-Joint | Married-Separate | Current Law | Special Session Bills |
| Less than $10,910 | Less than $14,540 | Less than $7,270 | 4.40% | 4.00% |
| 10,910 to 21,820 | 14,540 to 29,090 | 7,270 to 14,540 | 5.84 | 5.84 |
| 21,820 to 240,190 | 29,090 to 320,250 | 14,540 to 160,130 | 6.27 | 6.27 |
| 240,190 and Over | 320,250 and Over | 160,130 and Over | 7.65 | 7.65 |

[LRB 4039/1 and LRB 4066/1 Sections: 24 thru 26]

## 2. MANUFACTURING AND AGRICULTURE CREDIT

| GPR-Tax | - $35,300,000 |
|---|---|

Modify the current law procedures for claiming the manufacturing and agriculture credit so that the credit may be claimed as an offset to both the regular tax and the alternative minimum tax under the individual income tax. These provisions would apply retroactively to tax years beginning on January 1, 2013. Decrease estimated individual income tax collections by $11,300,000 in 2013-14 and $24,000,000 in 2014-15. Due to the credit's phase-in, this provision would reduce estimated individual income tax collections by $39,000,000 in 2015-16 and by $49,300,000 in 2016-17 and thereafter.

The credit was created in 2011 Act 32 and is being phased in between tax years 2013 and 2016. The credit is available to taxpayers to offset the tax on income from manufacturing and agricultural activities in Wisconsin. Currently, individual income tax provisions allow the manufacturing and agriculture credit to be used only to reduce regular tax liability.

[LRB 4039/1 and LRB 4066/1: Sections: 30, 32, 34, 9337(5), and 9437(2)]

## 3. HISTORIC REHABILITATION CREDIT

| GPR-Tax | - $1,000,000 |
|---|---|

Modify the current law procedures for claiming the state historic rehabilitation credit so that the credit may be claimed as an offset to both the regular tax and the alternative minimum tax. These provisions would first apply in taxable years beginning on January 1, 2014. Decrease estimated individual income tax collections by $1,000,000 in 2014-15.

The historic rehabilitation credit is available to natural persons based on their expenditures for preserving or rehabilitating historic properties that are owner-occupied residences. Under current law, the state historic rehabilitation credit may be used only to reduce regular tax liability under the individual income tax. Wisconsin also offers a separate historic rehabilitation credit for non-residential properties that is a supplement to the federal historic rehabilitation credit. The state supplement to the federal historic rehabilitation credit already may be claimed as an offset to both the regular tax and the alternative minimum tax under the state individual income tax.

[LRB 4039/1 and LRB 4066/1: Sections: 29, 31, 33, 35, 9337(2), and 9437(3)]

## 4. RESEARCH CREDIT

| | |
|---|---|
| GPR-Tax | - $500,000 |

Modify the current law procedures for claiming the research credit so that the credit may be claimed as an offset to both the regular tax and the alternative minimum tax under the individual income tax. These provisions would first apply to taxable years beginning on January 1, 2014. Under current law, the research credit may be used only to reduce regular tax liability under the individual income tax. Decrease estimated individual income tax collections by $500,000 in 2014-15. The research credit is based on the increase in a corporation's qualified research expenditures in Wisconsin, and may be claimed under the individual income tax by taxpayers with an ownership interest in a pass-through business.

The state also offers a research facilities credit based on the expenditures for constructing or equipping new research facilities or expanding existing research facilities. This credit may be claimed under the individual income tax as an offset only to regular tax, and not as an offset to the alternative minimum tax. A third research credit called the super research and development credit is available only to corporations and cannot be claimed on the individual income tax by taxpayers with an ownership interest in a pass-through business. 2013 Act 20 eliminated the research facilities credit and the super research and development credit beginning in tax year 2014.

[LRB 4039/1 and LRB 4066/1: Sections: 27, 33, 36, 9337(2), and 9437(3)]

## 5. NET OPERATING LOSS CARRY BACK

Specify that taxpayers are not required to carry back a net operating loss to the preceding two years if the taxpayer chooses not to do so. Specify that this provision would first apply in taxable years beginning on January 1, 2014. In addition, specify that the Department of Revenue (DOR) may not pay interest on any overpayment of taxes resulting from the carry back of net operating losses, effective on January 1, 2014.

Prior to Act 20, Wisconsin allowed net operating losses to be carried forward for up to 15 years, but did not allow net operating losses to be carried back. Under Act 20, taxpayers are allowed to carry forward net operating losses for 20 years and carry back losses for two years, beginning with tax year 2014. The proposed change clarifies that the Act 20 provision regarding carry backs is permissive and not mandatory. These provisions would decrease estimated individual income tax collections by a minimal amount, beginning in 2014-15.

[LRB 4039/1 and LRB 4066/1 Sections: 21 thru 23, and 9337(3)&(4)]

## 6. EXCLUSION/CREDIT FOR INCOME FROM RELOCATED BUSINESS

| | |
|---|---|
| GPR-Tax | - $250,000 |

Provide that businesses that relocate to Wisconsin in 2013 may claim the business relocation exclusion or tax credit for two years, as described below.

**Individual Income Tax Exclusion**. Under current law, for taxable years beginning after December 31, 2010, and before January 1, 2014, for two consecutive taxable years beginning with the taxable year in which the claimant's business locates to this state from another state or another country and begins doing business in this state, a business may exclude any profit or loss from a trade or business, plus ordinary gain or loss on the sale of business assets, from state individual income taxes. The January 1, 2014, sunset date for the exclusion was enacted in 2013 Act 20 (the 2013-15 biennial budget)

Under the special session bills, no person could claim this exclusion for taxable years beginning after December 31, 2013, except that a claimant who is first eligible to claim an exclusion beginning after December 31, 2012, and before January 1, 2014, could claim the exclusion the following taxable year. This would allow the two-year exclusion for businesses that first qualify in 2013.

**Corporate Income Tax Credit.** Current law provides a credit against the claimant's corporate income/franchise tax liability for a business that locates to this state from another state or country, and begins doing business in Wisconsin. The credit equals the amount of tax liability after applying all other allowable credits, deductions and exclusions. The credit can be claimed for two consecutive tax years, beginning with the tax year in which the claimant relocates to Wisconsin.

Under Act 20, the relocated business credit was eliminated for tax years beginning after December 31, 2013. Act 20 also specifies that relocated business credits for taxable years that begin before January 1, 2014, may be carried forward to taxable years that begin after December 31, 2013.

The special session bills would delete the current carry-forward provision for the credit, and instead specify that a claimant who is first eligible to claim a credit for taxable years beginning after December 31, 2012, and before January 1, 2014, may claim the credit in the following taxable year. This would correct a flaw in the current carry-forward statute and allow corporations that first claim the credit in 2013 to receive the credit for two years.

These provisions would reduce state income and franchise tax collections by an estimated

$110,000 in 2013-14 and $140,000 in 2014-15.

[LRB 4039/1 and LRB 4066/1 Sections: 17 thru 20, 38, and 40]

**7. ELECTRONIC MEDICAL RECORDS TAX CREDIT**

Provide that the electronic medical records tax credit could not be claimed based on amounts paid after December 31, 2013, even if the taxpayer's 2013 tax year extends into calendar year 2014.

Under current law, for taxable years beginning after December 31, 2011, and before January 1, 2014, a claimant may claim an income or franchise tax credit equal to 50% of the amount the claimant paid in the taxable year for information technology hardware or software that is used to maintain medical records in electronic form, if the claimant is a health care provider. The maximum total amount of credits that can be claimed in a tax year is $10 million.

[LRB 4039/1 and LRB 4066/1 Sections: 28, 37, and 39]

**8. JOBS TAX CREDIT**

Provide that in order to claim a jobs tax credit, the claimant would have to increase employment in this state over the base year employment in this state. This provision is intended to clarify that to be eligible for a credit the business must increase employment in Wisconsin, whether by creating new jobs or relocating jobs from another state.

Under current law, among other requirements, in order to be eligible for a jobs credit, a person certified by the Wisconsin Economic Development Corporation must increase net employment in the person's business above the net employment in the person's business during the year before the person was certified.

[LRB 4039/1 and LRB 4066/1 Section: 44]

**9. SALES TAX EXEMPTIONS FOR PRINTING INDUSTRY**

Make technical modifications to sales and use tax exemptions, as created under 2013 Wisconsin Act 20, for certain items purchased by certain persons primarily engaged in commercial printing. Specify that the proposed modifications would take effect and first apply retroactively to sales made on or after October 1, 2013.

**Current Law.** Current law provides sales and use tax exemptions for certain items purchased by persons primarily engaged in commercial printing, not including screen printing or book printing, without publishing, except for gray goods; printing, or printing and binding, books or pamphlets without publishing the books or pamphlets; or performing prepress and postpress services in support of printing activities. The exemptions from the tax for the entities described above are for their purchases of:

a. computers and servers that are used to store copies of the product that are sent to a printing press; and

b. tangible personal property purchased from out-of-state sellers that are temporarily stored, remain idle, and are not used in this state for not more than 180 days and that are then delivered and used outside of this state.

These provisions took effect on October 1, 2013.

**Proposed Modifications.** Specify that the current law exemptions would, instead, be available to persons primarily engaged in, as determined by DOR, commercial printing, book printing, or support activities for printing described under the North American Industry Classification System (NAICS) codes 323111, 323117, and 323120 [The activities identified in these NAICS codes are identical to those that qualify for the exemptions under current law].

Specify that the exemption under "a." would apply to computers and servers used primarily to store copies of the product that are sent to a digital printer, a platemaking machine, or a printing press, or used primarily in prepress or postpress activities. Define "prepress activities" to include making print-ready plates, typesetting, trade binding, and sample mounting. Define "postpress activities" to include paper bronzing, die-cutting, edging, embossing, folding, gilding, gluing, and indexing. The proposed changes would clarify that the computers and servers would have to be primarily used to store copies of product and that the copies would not have to be sent directly to a printing press.

Modify the exemption under "b." to specify that, after storage in Wisconsin, the property must be delivered and used solely outside of this state.

As noted, these changes would take effect and first apply retroactively to sales made on October 1, 2013, which corresponds to the Act 20 starting date for the exemptions. According to DOR, these modifications are expected to have a minimal impact on state tax revenues.

[LRB 4039/1 and 4066/1 Sections: 42, 43, 9337(1), and 9437(1)]

## 10. HOMESTEAD CREDIT -- LOSS CARRY-BACKS

Specify that loss carry-backs must be added back in computing household income for purposes of the homestead tax credit. Under current law, loss carry-forwards are added back to the claimant's income in calculating household income. The bill would ensure that loss carry-backs are treated the same as loss carry-forwards. Specify that this change would first apply to taxable years beginning on January 1, 2014. This change would result in a minimal decrease in homestead tax credits.

[LRB 4039/1 and 4066/1 Sections: 41 and 9337(3)]

## 11. PROPERTY TAX RELIEF AID

| | |
|---|---|
| GPR | $406,000,000 |

Provide $406,000,000 in 2014-15 in a new, capped sum sufficient appropriation under the Wisconsin Technical College System (WTCS) for property tax relief aid. Require the state WTCS Board to distribute this aid to each technical college district board beginning on February 20, 2015, and annually thereafter on the third Friday in February. Provide that each district board would receive an amount calculated by: (a) dividing the district's equalized value as of January 1, 2014, by the total equalized value of all districts as of January 1, 2014; and (b) multiplying the quotient determined under (a) by $406,000,000. Provide that equalized value excludes the value of tax incremental districts. Specify that for the payment in 2016 and annually thereafter, each district board would receive the same amount as in 2015. Require the state WTCS Board to notify each district board by October 15, 2014, of the amount of aid it will receive on February 20, 2015.

[LRB 4039/1 and 4066/1 Sections: 1 thru 3, 16, and 9143(1)]

## 12. INTERACTIVE EFFECTS DUE TO REDUCED TECHNICAL COLLEGE PROPERTY TAX LEVIES

| | |
|---|---|
| GPR | - $2,320,000 |
| GPR-Tax | $2,640,000 |

Decrease estimated GPR expenditures by $2,320,000 and increase estimated individual income tax collections by $2,640,000 in 2014-15 to reflect reduced state tax credit claims resulting from lower property taxes levied by technical college districts under the changes described above. Lower property tax bills will result in smaller estimated state credits claimed under the school property tax/rent credit (-$2,640,000), veterans and surviving spouses property tax credit (-$1,530,000), and the homestead credit (-$790,000). The school property tax/rent credit is a nonrefundable tax credit, so changes in credit amounts affect individual income tax collections (lower credits result in higher tax collections). The veterans and surviving spouses property tax credit and the homestead credit are refundable tax credits and are reflected as expenditures in the state appropriation schedule (lower credits result in reduced appropriations).

## 13. REPLACE LEVY LIMIT WITH REVENUE LIMIT

Replace the current limit that applies to each technical college district's tax levy with a revenue limit that would apply to the sum of the district's tax levy and the property tax relief aid received by the district under Item #11. As under the current levy limit, tax levy would be defined to exclude taxes levied for the purpose of paying principal and interest on valid bonds and notes, other than noncapital notes issued on or after July 2, 2013. Beginning in the 2014-15 school year and for each school year thereafter, specify that no district board could increase its revenue by a percentage that exceeds the district's valuation factor. As under the current levy limit, valuation factor would be defined as a percentage equal to the greater of either: (a) zero percent; or (b) the percentage change in the district's January 1 equalized value due to the aggregate new construction, less improvements removed, in municipalities located in the district, as determined by the Department of Revenue.

Specify that the current law levy limit provisions related to excess levy, referendum approval needed to exceed the limit, and carry forward of any under levy, would be modified to apply to the proposed revenue limits.

[LRB 4039/1 and 4066/1 Sections: 2 and 4 thru 15]

## Individual Income Tax Withholding and Budget Stabilization Fund

### 14. ADJUST WITHHOLDING TABLES

| GPR-Tax | - $322,600,000 |
|---|---|

Section 71.64(9)(b) of the state statutes authorizes DOR to adjust the individual income tax withholding tables to reflect changes in tax rates, the imposition of a surtax, or statutory changes to the brackets. DOR last changed the withholding tables in October, 2009, to reflect the creation of a new top bracket and rate in 2009 Act 28 and to reflect the inflationary effects of indexing. In the past, provisions have been enacted that require DOR to make withholding adjustments or to refrain from making withholding adjustments in response to certain law changes. The bills do not contain a provision requiring DOR to modify the withholding tables, but the Governor has directed DOR to implement withholding changes beginning on or after April 1, 2014. The administration indicates that these changes will reduce estimated individual income tax collections by $156,500,000 in 2013-14 and by $166,100,000 in 2014-15.

From the taxpayer's perspective, the lower amount of withheld income taxes will be exactly offset by a decreased refund or larger payment (remittance) when the taxpayer's return is filed the following spring. However, because of timing differences in state cash flows, the withholding table changes will result in a one-time state revenue loss of approximately $322.6 million in the 2013-15 biennium.

The revenue loss in 2013-14 will occur because withholding taxes will be reduced for three months--from April through June, 2014--with no offsetting reduction in refunds (or increase in remittances) from tax year 2013.

In 2014-15, withholding taxes will be reduced for twelve months, which will be partially offset by lower refunds (and larger remittances) paid in the Spring of 2015. However, the lower refunds will reflect only nine months of reduced withholding taxes in calendar year 2014 (from April through December), which means there will be a second one-time loss in 2014-15. Beginning in 2015-16, the reduced withholding taxes will be offset by lower refunds and higher remittances during the tax filing season.

The Governor directed the DOR Secretary to implement withholding changes in a letter dated January 22, 2014. In making the changes, the letter instructs the Secretary to modify the tables to reflect the inflationary adjustments to the tax brackets and to the sliding scale standard deduction that have occurred under indexing, the tax rate and bracket modifications enacted under 2013 Act 20, and the tax rate reduction proposed in the special session bill(s). The following table reflects the effect of each change.

**Estimated One-Time Revenue Reduction Resulting from Withholding Changes**
**($ in Millions)**

| Change Due To: | 2013-14 | 2014-15 | Biennium |
|---|---|---|---|
| Indexing | -$73.4 | -$75.1 | -$148.5 |
| Act 20 Rate & Bracket Changes | -61.7 | -68.5 | -130.2 |
| Proposed Tax Rate Change | -21.4 | -22.5 | -43.9 |
| Total | -$156.5 | -$166.1 | -$322.6 |

## 15. TRANSFER TO BUDGET STABILIZATION FUND

| GPR-Transfer | $113,139,800 |
|---|---|

Current law governing transfers from the general fund to the budget stabilization fund specifies that half of any excess of actual general fund tax revenues in a fiscal year over the amount included in the biennial budget act must be deposited into the budget stabilization fund after the close of that fiscal year. The budget stabilization fund currently has a balance of $279.3 million.

Current law further states that if a transfer to the budget stabilization fund would reduce the balance of the general fund below the required statutory reserve, then the transfer must be reduced as needed to maintain the required reserve. The statutory reserve is set at $65 million annually. For example, if the gross balance in the general fund at the end of a fiscal year was $100 million, the most that could be transferred to the budget stabilization fund would be $35 million.

Using the increased revenue projections for the 2013-15 biennium presented in the Fiscal Bureau letter dated January 16, 2014, if no changes were made to the state's budget, it is estimated that $193.2 million in 2013-14 and $249.8 million in 2014-15 would be transferred to the budget stabilization fund. Under LRB-4039/1 and 4066/1, as introduced, it was estimated that $108,196,000 would be transferred in 2013-14 and $9,163,800 in 2014-15. Subsequent to introduction of the special session bills, a number of bills were enacted which would cause the 2014-15 transfer to the stabilization fund to be reduced to $4,943,800. The transfer amount in 2013-14 equals 50% of the amount by which projected general fund tax revenues 2013-14 exceed the estimate used in the biennial budget act, after consideration of the proposed tax reductions in the bill. The transfer amount in 2014-15 is the most that could be transferred and still maintain the $65 million statutory reserve.

The transfer amounts shown in this entry are not specified in the bill, but rather reflect the operation of the current law transfer provisions under the proposed changes in the bill.