



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #560

### **Veteran Employment Tax Credit (DOR -- Tax Administration)**

[LFB 2013-15 Budget Summary: Page 408, #9]

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#### **CURRENT LAW**

The veteran employment tax credit was created under the individual income and corporate income/franchise taxes by 2011 Wisconsin Act 212, and is provided for hiring disabled, unemployed veterans at the claimant's business in Wisconsin. Act 212 requires the Department of Workforce Development (DWD), in conjunction with the Department of Revenue (DOR), to submit a report to the Joint Committee on Finance (JFC), by June 30, 2013, describing the impact of the credit on unemployed veterans, including the number and type of businesses that claimed the veteran employment credit. The report is also required to include a recommendation to the Committee as to whether the veteran employment tax credit should continue. Within 14 working days after the submittal date of the report, the JFC Co-chairs must notify DWD and DOR that the Committee has scheduled a meeting for the purpose of reviewing the recommendation. Committee approval is required in order to implement the recommendation.

#### **GOVERNOR**

Modify the veteran employment tax credit report established by 2011 Wisconsin Act 212 to require DOR, in conjunction with DWD, to submit an annual report to JFC, by June 30 of each year, instead of a single report by June 30, 2013. The annual report would have to describe the impact of the tax credits on unemployed veterans in Wisconsin, and include the number and types of businesses that have claimed the credits. The Co-Chairpersons of the Committee would be required to notify DOR and DWD within 14 days of submittal of the report that the Committee has scheduled a meeting for the purpose of reviewing the report. However, the bill would delete the current requirement that a recommendation be included in the report and the requirement for Committee approval for continued implementation of the credit.

## DISCUSSION POINTS

1. The veteran employment tax credit is provided for hiring disabled veterans to work in full-time or part-time jobs in Wisconsin. The credit is equal to \$4,000 in the tax year in which the disabled veteran is hired, and \$2,000 in each of the following three tax years. For part-time jobs, the credit amounts are \$2,000 and \$1,000, respectively. The amount of credit for hiring part-time workers is prorated, based on the hours worked by the disabled veteran relative to a full-year work schedule of 2080 hours. The credit can only be claimed for hiring a disabled veteran who has received unemployment compensation benefits for at least one week prior to being hired, was receiving benefits at the time he or she was hired, and was eligible to receive unemployment benefits at the time they were paid. In addition, a credit cannot be claimed in any tax year in which the disabled veteran voluntarily or involuntarily leaves his or her employment with the claimant.

"Veteran" means a person who is verified by the state Department of Veteran Affairs (DVA) to have served on active duty under honorable conditions in the U.S. armed forces, in forces incorporated as part of the U.S. armed forces, in the National Guard, or in a reserve component of the U.S. armed forces. "Disabled veteran" means a veteran who is verified by DVA to have a service-connected disability rating of at least 50% under federal law.

The credit first applied to tax years beginning after December 31, 2011. At the time it was enacted, it was estimated that the credit would reduce state individual income and corporate income/franchise taxes by \$300,000 in fiscal 2011-12, \$1.3 million in 2012-13, \$2.0 million in 2013-14, and \$2.4 million in 2014-15.

2. Veterans must be certified by the DVA as eligible for credits. Specifically, DVA must certify that the individual: (a) is a veteran; (b) has a service-connected federal VA disability rating of at least 50%, under federal law; and (c) received unemployment compensation at the time he or she was hired, and for at least one week prior to that date. Both the employer and veteran must complete and sign the appropriate sections of the certification form. By completing the certification form, the veteran is authorizing the DVA to release the required information to the employer. If the veteran is an eligible veteran, the DVA will mail confirmation to the employer. The employer may not claim the credit unless confirmation of the veteran's eligibility has been received from DVA.

3. The veteran employment tax credit is designed to provide an incentive for Wisconsin employers to hire unemployed veterans, and, as a result, to reduce the number of veterans receiving unemployment compensation benefits. The report to JFC was intended to provide the budget committee of the Legislature with information necessary to determine the effectiveness of the credit as an incentive for hiring eligible veterans. Based on this information, JFC could determine if the benefits to the state from reducing veteran unemployment warranted the cost, in terms of reduced tax revenues. JFC could discontinue the credit if it determined the credit was ineffective and there were higher budgetary priorities for the funding.

4. However, the Governor's proposal would continue the veteran's employment tax credit indefinitely and eliminate JFC authority to discontinue the credit based on the June, 2013, report. Instead, an annual report would be required, and the Committee would be required to meet to review the report. The report is designed to continue to provide information to JFC that could be

used to evaluate the effectiveness of the tax credit. JFC receives a number of reports, such as the quarterly report listing tax credits, grants and loans made by the Wisconsin Economic Development Corporation (WEDC), that do not require the Committee to meet for review. Since the Committee's authority to make the credit permanent would be deleted, it would not be necessary to convene a formal meeting simply to review the veteran's employment tax reports. Consequently, the requirement that the Committee meet to review the report could be deleted.

5. Restoring the current law report, and JFC review would reflect Legislative intent in enacting Act 212. However, through March, 2013, DVA had not certified any veteran as eligible for the veteran's employment tax credit. DVA staff indicate that, in part, this is because the current certification form does not include provisions by which the veteran could authorize the federal DVA to release disability and service-related information to DVA. The form is currently being revised to include these provisions. However, the lack of certifications means that at a minimum, no veteran tax credits will be claimed for tax year 2012.

6. Current law requires DWD and DOR to submit the report describing impact of the veteran tax credit to JFC by June 30, 2013. As noted, no employment tax credits will be claimed for tax year 2012. In addition, because of filing extensions, totally complete information for tax year 2013 returns will not be available until 2015. In order receive tax return data that is closer to being complete, the Committee may wish to require that the DWD and DOR report on the veteran employment tax credit be provided to the Committee by January, 2015 rather than June 30, 2013. The Committee could then use this information to determine whether to continue the credit as part of its 2015-17 biennial budget actions.

7. As noted, DVA indicates that no veterans have been certified for the veteran employment tax credit through March 2013. DVA has received only two applications from individuals, and they were determined to be ineligible. Federal and state equal rights laws prohibit employers from discriminating against disabled individuals in hiring employees. However, DVA staff believe that the requirement that the veteran be certified as disabled can act as a disincentive to the individual veteran. The veteran may believe he or she would be less likely to be hired than an equally qualified applicant who was not identified as disabled. When viewed in this context, it is not clear how many disabled veterans will choose to seek eligibility for the credit. As a result, the Committee may wish to eliminate the veteran employment tax credit. Under a separate provision, employers could claim an exclusion of up to \$4,000 (depending upon gross receipts) for each veteran that is hired, if the new hire increased the employer's workforce. In addition, an unemployed, disabled veteran with a federal disability rating of 50% is eligible for services, including a counselor and individual plan for employment (IPE) from the Division of Vocational Rehabilitation (DVR) in DWD. Services include, but are not be limited to: (a) job-related services; (b) vocational training; (c) technical self-employment assistance; and (d) specific post-employment services necessary to retain, regain, or advance in employment. The IPEs are designed to assist the person to become capable to compete in the labor market, practice a profession, be self-employed, raise a family and make a home, and participate in sheltered employment or other gainful work.

## ALTERNATIVES

1. Adopt the Governor's recommendation.
2. Modify the Governor's recommendation to eliminate the requirement that the Committee must schedule a meeting to review the annual reports on the impact of the veteran employment tax credit submitted by DWD and DOR.
3. Deny the Governor's request, and modify current law to require that the report on the impact of the veteran employment tax credit be submitted to the Joint Committee on Finance by January 31, 2015, rather than June 30, 2013. Delete the current requirement that the Committee meet to review the report and that the credit could continue only if JFC approves continuation. Instead, the Committee and the Legislature could determine whether the credit should continue as part their deliberations on the 2015-17 biennial budget.
4. Deny the Governor's request and repeal the veteran employment tax credit, effective for tax years beginning on or after January 1, 2013. Also, eliminate the required report on the impact of the veteran employment tax credit by DWD and DOR to the Joint Committee on Finance by June 30, 2013.

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