Representative Vos
Senator Grothman

REVENUE/GENERAL FUND TAXES

Restore Revenue Raising Positions/Domestic Production Activities Credit
[LFB Paper #570]

Motion:

Move the following:

Restore Department of Revenue Positions

Provide $129,000 SEG, 1.0 SEG revenue field agent, and 1.0 SEG revenue field auditor, $98,600 PR, 2.0 PR revenue agents, and $661,100 GPR, and 2.0 GPR revenue audit supervisors, 2.0 GPR revenue field auditors, 1.0 GPR revenue auditor, 3.0 GPR revenue field agents, and 3.0 GPR revenue agents annually to restore deleted positions in the Audit, Compliance, and Tax Operations Bureaus of the Department of Revenue.

Domestic Production Activities Credit

Create, under the state individual income and corporate income and franchise taxes, effective for tax years beginning on or after January 1, 2013, a qualified production activities income tax credit.

Provide that, under the individual income tax, the credit would equal a specified percentage of the claimant's qualified production activities income, as defined under the Internal Revenue Code (IRC), that is derived from property assessed as manufacturing or agricultural property in Wisconsin, as defined under state property tax law. Provide that under the corporate income and franchise tax and for insurance companies, the credit would be the lesser of a specified percentage of the claimant's: (a) qualified production activities income, as defined under the IRC, derived from manufacturing or agricultural property, in Wisconsin, as defined under state property tax law; (b) income apportioned to Wisconsin for state corporate income in Wisconsin and franchise tax purposes; or (c) income determined as taxable under state combined reporting provisions. Provide that the specified tax credit percentage be as follows:

a. 1.875% for tax years beginning on or after January 1, 2013, and before January 1, 2014;

b. 3.75% for tax years beginning on or after January 1, 2014, and before January 1, 2015;

c. 5.526% for tax years beginning on or after January 1, 2015, and before January 1, 2016;

d. 7.5% for tax years beginning on or after January 1, 2016.

Provide that unused tax credit amounts could be carried forward up to 15 years to offset future tax liabilities.

Provide that partnerships, limited liability companies (LLCs), and tax-option corporations (S corporations) could not claim the credit, but eligibility for, and the amount of credit would be based on the entity's qualified production activities income. Require a partnership, LLC, or tax-option corporation to compute the amount of credit each of its partners, members, or shareholders could claim and provide that information to them. Provide that partners, members of LLCs, and shareholders of tax-option corporations could claim the credit in proportion to their ownership interests.

Authorize the Department of Revenue to administer the credit, and take any action, conduct any proceeding, and proceed as authorized under state income and franchise tax laws. Apply state tax provisions related to timely claims, assessments, refunds, appeals, collection, interest, and penalties to the credit.

Note:

Restore Department of Revenue Positions

AB 40 deleted $3,879,000 (all funds) and 71.35 positions annually to reflect elimination of long-term vacancies under the bill. Subsequently, DOA identified 5.0 GPR positions that should be restored because they were not vacant and 5.0 other vacant GPR positions to be deleted. Included in the positions that would be deleted are 15.0 audit and compliance positions. This motion would provide $129,000 SEG, $98,600 PR and $661,100 GPR and 2.0 SEG, and 2.0 PR and 11.0 GPR positions annually to restore these deleted positions. According to information provided by the Department of Revenue, these positions would generate an estimated $9,300,000 in GPR revenues in 2012-13.

Domestic Production Activities Credit

A deduction against gross income for a portion of income attributable to domestic production activities is provided under the federal individual and corporate income taxes, The deduction is equal to the lesser of 9% of a business' qualified production activities income (QPAI), or its taxable income. The amount of the deduction for a tax year is limited to 50% of the W-2 wages that are properly allocable to domestic production gross receipts.

"Qualified production activities income" is determined by reducing domestic production gross receipts by the cost of goods sold and other deductions, expenses, or losses directly allocable to such receipts. "Domestic production gross receipts" are any gross receipts that the taxpayer derives from:

a. The lease, rental, license, sale, exchange, or other disposition of qualifying production property (generally, tangible personal property, computer software, and sound recordings) manufactured, produced, grown, or extracted by the taxpayer, in whole, or in significant part, in the United States.

b. Construction performed in the U.S.

c. Engineering or architectural services performed in the U.S. for construction projects in the U.S.

d. The sale, exchange, or other disposition of electricity, natural gas, or potable water produced by the taxpayer in the U.S.

Prior to 2009 Wisconsin Act 28 (the 2009-11 biennial budget act), state individual income and corporate income/franchise tax provisions were referenced to IRC provisions that provide the deduction for domestic production activities income. As a result, taxpayers could claim the deduction for state income and franchise tax purposes. However, Act 28 eliminated the individual income and franchise tax references to the IRC provisions, for tax years beginning on or after January 1, 2009. Taxpayers can no longer claim the deduction under the state individual income and corporate income/franchise taxes.

This motion would create a state individual income and corporate income and franchise tax credit, effective for tax years beginning on or after January 1, 2013. When fully phased-in in tax year 2016, the credit would be equal to 7.5% of a claimant's qualified production activities income, as defined under the IRC, that is derived from property assessed as manufacturing or agricultural property in Wisconsin. The credit would be phased in over a four-year period, beginning in 2013, and would reduce state income and franchise taxes by an estimated $10,100,000 in fiscal year 2012-13, $44,200,000 in 2013-14, $72,300,000 in 2014-15, $104,400,000 in 2015-16, and $128,700,000 in fiscal year 2016-17 and thereafter.

[Change to Bill: $1,322,200 GPR and 11.0 GPR positions; $258,000 SEG and 2.0 SEG positions; $197,200 PR and 2.0 PR positions; and -$800,000 GPR-REV]