



## Legislative Fiscal Bureau

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January 17, 2018

TO: Representative Gordon Hintz  
Room 201 West, State Capitol

FROM: Sean Moran, Fiscal Analyst

SUBJECT: Estimated Fiscal Impact of the Manufacturing and Agriculture Credit

At your request, I am providing information regarding the estimated fiscal impact of the manufacturing and agriculture tax credit (MAC) under the individual income tax and the corporate income/franchise tax as it exists under current law.

For corporate filers, the MAC is equal to 7.5% 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 7.5% of the claimant's eligible QPAI, as defined under the IRC, that is derived from manufacturing or agricultural property in Wisconsin. For individual filers, 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 current tax credit percentage of 7.5% took effect in tax year 2016 and was phased in over a four-year period beginning in tax year 2013.

You requested information regarding the estimated fiscal effect of the MAC by state fiscal year since the credit took effect. It is estimated that the MAC reduced state tax revenues by \$15.7 million in 2012-13, \$80.5 million in 2013-14, \$147.4 million in 2014-15, \$209.0 million in 2015-16, and \$262.1 million in 2016-17. The estimated revenue loss is \$275.5 million in 2017-18 and \$294.8 million in 2018-19. The current estimates are primarily based on aggregate individual income tax statistics for tax years 2013 through 2016, corporate income/franchise tax return data for tax years 2013 and 2014, and partial corporate tax return data for tax years 2015 and 2016. The estimates were provided by the Department of Revenue (DOR). The following table shows the estimated fiscal effect of the MAC from 2012-13 through 2018-19 split between the manufacturing and agricultural portion of the credit for both the corporate income/franchise tax and the individual income tax.

**Estimated Fiscal Effect by Component of the Manufacturing and Agriculture Tax Credit  
(Millions)**

| <u>State<br/>Fiscal Year</u> | <u>Corporate Tax</u> |                    | <u>Individual Income Tax</u> |                    | <u>Combined State Tax Reduction</u> |                    |
|------------------------------|----------------------|--------------------|------------------------------|--------------------|-------------------------------------|--------------------|
|                              | <u>Manufacturing</u> | <u>Agriculture</u> | <u>Manufacturing</u>         | <u>Agriculture</u> | <u>Manufacturing</u>                | <u>Agriculture</u> |
| 2012-13                      | \$4.0                | \$0.2              | \$9.2                        | \$2.3              | \$13.2                              | \$2.5              |
| 2013-14                      | 20.1                 | 0.8                | 49.1                         | 10.5               | 69.2                                | 11.3               |
| 2014-15                      | 35.0                 | 1.2                | 97.2                         | 14.0               | 132.2                               | 15.2               |
| 2015-16                      | 48.7                 | 1.7                | 144.5                        | 14.1               | 193.2                               | 15.8               |
| 2016-17                      | 51.6                 | 1.8                | 193.1                        | 15.6               | 244.7                               | 17.4               |
| 2017-18                      | 56.5                 | 1.9                | 197.4                        | 19.7               | 253.9                               | 21.6               |
| 2018-19                      | 63.1                 | 2.2                | 209.3                        | 20.2               | 272.4                               | 22.4               |

As shown above, the manufacturing portion of the credit accounts for approximately 92% of the total revenue reduction and the agricultural portion accounts for 8%. Approximately 78% of the credit is estimated to be claimed under the individual income tax and 22% under the corporate tax. As previously noted, the fiscal effect of the MAC was estimated by DOR based on available data to-date from state tax returns. As additional corporate income/franchise and individual income tax return data becomes available, it is possible that the fiscal estimates shown above may change.

It should be noted that the current estimates incorporate the 2017 Wisconsin Act 59 provision that prohibits an individual from including income in the taxpayer's calculation of eligible QPAI used to claim the MAC if that income is also used to calculate an individual's credit for taxes paid to other states (TPOS), beginning with tax year 2017. The Act 59 provision was estimated to increase individual income tax revenues and reduce the amount of MAC/TPOS that could be claimed by \$9.7 million in 2017-18 and annually thereafter.

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

SM/lb