



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>

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TO: Senator Jon Erpenbach
Room 130 South, State Capitol

FROM: John D. Gentry, 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. The amount of QPAI that may be used to calculate the MAC for individual filers is reduced by the amount of QPAI used to calculate the credit for taxes paid to another state. In addition, the credit may not be used by individual filers to offset taxes on other sources of income. Partnerships, limited liability companies, and tax-option (S) corporations that elect to be taxed at the entity level may not claim the MAC (and neither may their owners). 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. If the amount of MAC claimed exceeds a claimant's tax liability, the claimant can carry the unused amount forward for use in a future tax year for up to 15 years.

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 \$15.8 million in 2012-13, \$81.8 million in 2013-14, \$152.4 million in 2014-15, \$211.5 million in 2015-16, \$266.7 million in 2016-17, \$297.1 million in 2017-18, \$331.7 million in 2018-19, and \$319.9 million in 2019-20. The estimated revenue loss is \$305.3 million in 2020-21, \$313.2 million in 2021-22, and \$332.6 million in 2022-23. The current estimates are primarily based on aggregate individual income tax statistics for tax years 2013 through 2019 and corporate income/franchise tax return data for tax

years 2013 through 2017 from the Department of Revenue. The following table shows the estimated fiscal effect of the MAC from 2012-13 through 2022-23 split between the manufacturing and agricultural portion of the credit for both the corporate income/franchise tax and the individual income tax.

<u>State</u> <u>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	\$4.1	\$0.2	\$9.2	\$2.3	\$13.3	\$2.5
2013-14	21.4	0.8	49.1	10.5	70.5	11.3
2014-15	40.1	1.1	97.2	14.0	137.3	15.1
2015-16	53.1	1.0	143.5	13.9	196.6	14.9
2016-17	63.9	0.6	188.8	13.4	252.7	14.0
2017-18	70.4	0.6	213.5	12.6	283.9	13.2
2018-19	73.2	0.6	246.6	11.3	319.8	11.9
2019-20	73.2	0.6	233.2	12.9	306.4	13.5
2020-21	58.5	0.5	233.6	12.7	292.1	13.2
2021-22	63.3	0.5	236.7	12.7	300.0	13.2
2022-23	68.3	0.6	250.3	13.4	318.6	14.0

Over the eleven-year period shown above, the manufacturing portion of the credit accounts for approximately 95% of the estimated revenue reduction and the agricultural portion accounts for 5%. Approximately 77% of the credit is estimated to be claimed under the individual income tax and 23% under the corporate tax. As previously noted, the fiscal effect of the MAC was estimated 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.

I hope this information is helpful. Please contact me with any further questions.

JG/bh