

## Tax Credit Reform

**Introduction.** *The Department of Commerce offers a number of distinct tax credit programs. These programs are performance based creating incentives that are not speculative, but reward performance. A company must make the investment and create the jobs to be eligible for the tax credits. The tax credits, however, are not portable and there is a large pool of tax credits that cannot be accessed. As demographics and other factors change, there is also need to examine whether or not the programs include all of the currently appropriate creditable activities.*

**Consolidation.** **Consolidate the tax credits into one large statewide pool; remove the geographic barriers; and, provide a single statewide application form and process with a broad requirement to demonstrate that the use of a tax credit will provide an economic development benefit to the state and/or local community or region.**

**Portability.** **Make tax credits portable, including refundability, secondary market sale and pass-through provisions, to encourage greater entrepreneurial activity by targeting the incentives where and when emerging companies most need the assistance.** *(The Technology Zone Program, for example, targets growth in technology related industries. Many of these companies are start-ups or rapid growth companies, which also create the high-end jobs that Wisconsin desperately needs. Growth companies need assistance in early stages of development. Our current tax credit programs do reward participating companies, but the benefit is delayed up to fifteen years. Making tax credits portable—for those who do not have a current tax liability—rewards entrepreneurial initiative with an immediate economic incentive aimed at accelerating the growth of the company or companies involved in these programs. This is not a grant. These programs are performance based. The recipient must perform in order to receive the tax credit.)*

**Creditable Activities.** *The future success of Wisconsin business will be contingent upon businesses ability to enhance productivity. Productivity is increased by two critical investments, the first is an investment in Wisconsin's human capital and the second is an investment in cutting edge technology. To address the first issue provide that employer paid training is an eligible, creditable activity under the tax credit programs. (As demographics dictate and as the labor market tightens, job training and re-training become even more critical to our economic growth.) Secondly, expand the creditable activities to reward companies that make capital investments in productivity enhancements, through research and development (R&D) and/or new technology related expenditures.*

## Fiscal Implications

***Refundable Tax Credits*** should be revenue neutral and not require an appropriation. This proposal does not create any new credits. Adoption of a tax credit program assumes that the credits will be used and therefore budgeted for. This will not, however, prevent DOR from filing a fiscal note. The refundable tax credit approach was embodied in 2003 AB 508 by virtue of adoption of Assembly Amendment 1 recommended by Joint Finance based on a proposal developed by Sen. Stepp. AB 508 passed both houses and was

vetoed by the Governor despite the fact that he proposed refundable tax credits for Technology Zones in his “Grow Wisconsin” plan unveiled in early 2003.

***Pooling*** allows the ability to assign tax credits among existing programs as long as the total tax credits do not exceed the total tax credit limit already authorized. There, again, should be no fiscal impact and no appropriation.

***Creditable activities*** would expand “activities” (job training & retraining and capital investment) eligible for credits, but does not increase the number or amount of the credits, thereby no fiscal impact, no appropriation.

*WEDA & JEH & ALB, October, 2007*