

A Business Owes Nothing in Taxes & Gets a State Check?

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Why doesn't the press cover what's happening with refundable tax credits? This week Sen. Kathleen Vinehout writes about tax credits – the difference between non-refundable and refundable tax credits, the impact on the budget and Wisconsin taxpayers.

MADISON - "Why doesn't the press cover what's happening with refundable tax credits?" I asked the journalist. We were chatting about what I found in the state budget.

"Because the press doesn't understand them," she told me.

"Doesn't understand them?" I thought. "There has to be an easy way to describe what's happening..."

Imagine if you had no state tax taken out of your paycheck. You filed your tax return but you owed nothing. Now imagine the state sent you a refund check. Wow!

This is like a refundable tax credit. A company owes little to nothing in taxes but gets a check back from the state - cash from the taxpayers of Wisconsin.

Tax credits are different than deductions on your income tax form. The credit is subtracted dollar for dollar from the tax you owe - simple subtraction. You owe \$1,000. You have a \$500 credit. You now owe \$500.

But what if your credit was \$10,300,000? Under a refundable tax credit you would end up with a check for \$10,299,000.

According to the nonpartisan Legislative Fiscal Bureau (LFB) Wisconsin has two refundable tax credit programs: “Enterprise Zone Tax Credits” and “Jobs Tax Credits.” The “Enterprise Zone” used to refer to a designated place in which eligible businesses received tax credits for economic activity. In recent years it morphed into a credit to designated companies for jobs created and retained, training, capital expenditures and purchases from Wisconsin vendors.

A recent publication from the LFB details the 18 recent recipients of “Enterprise Zone Awards”. The table below is in millions of dollars:

Mercury Marine \$65.0

Kohl’s Corporation \$62.5

Quad/Graphics \$46.0

Oshkosh Corporation \$35.0

W Solar Group \$28.0

Fincantieri Marine Group \$28.0

Bucyrus \$20.0

Uline \$18.6

Kestrel Aircraft Company \$18.0

Plexus \$15.0

Northstar Medical Radioisotopes \$14.0

Amazon.com.dedc LLC \$10.3

Weather Shield Manufacturing \$8.0

The report also details five other designated “Enterprise Zones”: 1) Insinkerator; 2) Ashley Furniture; 3) Medline Industries, Inc.; 4) Trane; and 5) Exact Science. The LFB reported in January that Wisconsin Economic Development Corporation (WEDC) had not yet entered into contracts with these five companies to finalize the amount awarded.

WEDC is authorized to designate up to 20 “Zones” and the Governor designates an additional ten “Zones” in the budget. The Administration estimates this action would have a ten-year price tag of \$168.8 million for Wisconsin taxpayers.

The Governor also wants to take a nonrefundable tax credit (economic development tax credits) and convert it into a refundable tax credit. WEDC is currently authorized to spend \$164.2 million on the “economic development tax credits”.

Why rush to create NEW refundable tax credits? Perhaps the Manufacturing and Ag Tax Credit

has something to do with the rush. A late budget amendment in 2011 created this credit targeted at manufacturing companies. The tax credit takes tax rates for manufacturing and ag corporations down to .04% by 2016.

What happens if you owe less than 1% on your profits? Pretty soon your tax obligation is so small another tax credit isn't help much. Step in the refundable tax credit. You owe nothing? You still get a check.

How much might these companies have paid if not for the tax credits slipped into the budget in 2011? The LFB estimated the fiscal impact of just the Manufacturing and Ag credit at \$509 million in the coming budget.

So what's lost to Wisconsin taxpayers when the companies owing little to nothing in taxes cash their refundable tax credit checks?

School funding reform for one – the manufacturing tax credit money would more than cover changes in the school funding formula and hold harmless the wealthier suburban schools. The University of Wisconsin System for another – the credits awarded in the table above would more than cover the Governor's proposed university system cuts.

Fixing things like the state parks, Wisconsin Public TV and Radio, Family Care and IRIS could be done with the money given in credits to just Plexus. Dollars headed to Uline could instead fund SeniorCare and the School Violence Prevention Program.

Decisions made to give dollars away to profitable corporations have a big impact on future choices.

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