Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

[x] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number **03-3470/2**	Introduction Number **AB-756**

Subject

Create a homeowner's tax credit; increase property tax/rent credit; repeal school levy and lottery credit; computer property tax exemption; related parties; luxury boxes

Fiscal Effect

State:

[ ] No State Fiscal Effect
[ ] Indeterminate

- [ ] Increase Existing Appropriations
- [x] Decrease Existing Appropriations
- [x] Create New Appropriations
- [x] Increase Existing Revenues
- [x] Decrease Existing Revenues
- [x] Increase Costs - May be possible to absorb within agency's budget [x] Yes [ ] No
- [ ] Decrease Costs

Local:

[ ] No Local Government Costs
[ ] Indeterminate

1. [ ] Increase Costs
   [ ] Permissive [ ] Mandatory
2. [ ] Decrease Costs
   [ ] Permissive [ ] Mandatory
3. [x] Increase Revenue
   [ ] Permissive [x] Mandatory
4. [x] Decrease Revenue
   [ ] Permissive [x] Mandatory
5. Types of Local Government Units Affected
   [x] Towns [x] Village [x] Cities
   [x] Counties [x] Others <u>sewerage, lake, and stadium</u>
   [x] School Districts [x] WTCS Districts

Fund Sources Affected

[x] GPR [ ] FED [ ] PRO [ ] PRS [ ] SEG [ ] SEGS

Affected Ch. 20 Appropriations

20.566 (2) (am), (r), and 20.835 (3) (b), (bm), (q), and (s)

Agency/Prepared By	**Authorized Signature**	**Date**
DOR/ Daniel Huegel (608) 266-5705	Dennis Collier (608) 266-5773	3/5/2004

Fiscal Estimate Narratives

DOR 3/5/2004

LRB Number **03-3470/2**	Introduction Number **AB-756**	Estimate Type **Original**
Subject Create a homeowner's tax credit; increase property tax/rent credit; repeal school levy and lottery credit; computer property tax exemption; related parties; luxury boxes		

Assumptions Used in Arriving at Fiscal Estimate

PROPERTY TAXES

School Levies Tax Credit:
The state school levies credit provides property tax relief to all property taxpayers in the form of a credit on their property tax bills. The credit is allocated to municipalities based on their share of statewide school levies during the previous three years. The credit for 2002/03 was based on school levies for the 1999/2000, 2000/01, and 2001/02 property tax years. The municipality's payment is allocated to taxpayers based on their share of their municipality's total assessed value. The state pays the credit to municipalities on the fourth Monday in July. Funding for the credit is currently $469.3 million.

Under the bill, the school levies tax credit is repealed and the funds shifted to the homeowner's tax credit created under the bill. The homeowner's tax credit would be paid at the same time as the current lottery and gaming credit, on the fourth Monday in March. Thus, if this bill would go into effect for the 2004/05 property tax year, there would be a one-time shift of $469.3 million in spending from July 2005 (FY06) to March 2005 (FY05).

Lottery and Gaming Tax Credit:
The lottery and gaming tax credit provides property tax relief to qualifying taxpayers in the form of a credit on their property tax bills. The credit is provided only to property owned and used as a "primary residence," or the place where an individual lives most of the time. The credit equals the school property tax on a certain amount of the full value of the primary residence. The credit is currently funded from net proceeds of the state lottery.

For the 2002/03 property tax year, the credit equaled the school tax levy on the first $7,800 in full value of qualifying residences. A total of $103.8 million was distributed to properties on the property tax roll. (An additional $2.4 million was distributed to owners of mobile homes subject to monthly parking fees and therefore not on property tax rolls.)

Under the bill, the lottery and gaming tax credit would be folded into the homeowner's tax credit created under the bill.

Homeowner's Tax Credit:
The bill creates a new property tax credit called the homeowner's tax credit. The credit would operate similarly to the lottery and gaming tax credit in that it would equal the school property tax on a certain amount – up to a maximum of $60,000 – of the full value of a primary residence. Funding would equal $469.3 million, or the amount now distributed through school levies credits, plus available funds from net lottery proceeds.

If this bill had been in effect for the 2002/03 property tax year, a total of $575.5 million would have been distributed through the homeowner's tax credit. The value on which the credit would be paid would increase substantially. As the value on which the credit is paid rises, so does the number of residences on which the credit is paid on the entire value. The Department of Revenue (DOR) does not have data on the distribution of home values. It is therefore not possible to reasonably estimate the value on which the proposed credit could be paid, or would have been paid if the credit had been available for the 2002/03 property tax year.

Net Property Tax Levy and Rate:
There are several places under state law where the statewide average net property tax rate is used. Under current law, the average net tax rate is calculated by dividing the total tax levy minus the school levies credit

by the state total equalized value. Since it only applies to homeowners, the lottery and gaming credit is not included in the calculation of the net tax rate. Under the bill, the average net tax rate would be calculated by dividing the total tax levy by the state total equalized value. The homeowner's credit would not be subtracted when performing this calculation.

Under current law, for the 2002/03 property tax year, the total tax levy was $7,364.6 million, the school levies credit was $469.3 million, and the net tax levy was $6,894.3 million. Dividing the net tax levy by the total equalized value of $335,326.5 million results in a statewide average net tax rate of $20.56 per $1,000 equalized value.

Under the bill, for the 2002/03 property tax year, the total levy would have been $7,364.6 million. Dividing this tax levy by the total equalized value of $335,326.5 million results in a statewide average tax net tax rate of $21.96 per $1,000 equalized value. This is an increase of $1.40 per $1,000, or 6.8%, from the net rate under current law.

Property Taxes by Property Class:
Under the bill, total property taxes after all credits would not change. However, shifting funds from the school levies credit, which is paid to all property taxpayers, to the proposed homeowner's credit, which would be paid primarily (but not exclusively) to property classified as residential, would also cause a shift in who pays property taxes. Based on property taxes by class for 2002/03, the bill would have caused the following percentage changes in property taxes after property tax credits: residential, -2.4%; commercial, +6.0%; manufacturing, +6.3%; agricultural land, +8.0%; swamp and waste land, +7.7%; forest land, +7.4%; other, -4.8%; and personal property, +5.4%.

Tax Incremental Financing Tax Levy:
Tax incremental financing (TIF) is a financing method that allows a city or village to recover project costs associated with public improvements made in a tax incremental district (TID). For every TID, a base value is established. Municipalities with a TID district are allowed to retain the county, technical college, school district, special district, and municipal property taxes levied on any increase in value over the base value, which constitute the TIF tax increment.

Under current law, the TIF incremental levy collected by a municipality is based on tax rates before the application of property tax credits. The bill does not change this procedure. Therefore, the bill will have no effect on TIF incremental levies.

SALES AND USE TAX

The bill imposes sales taxes on leases of luxury boxes, sky boxes, and club seats at a sports facility if sales of admissions to sporting events at the facility are subject to sales taxes.

Sales tax is currently imposed on the fair market value of amenities, such as admission tickets, parking and catering, that are included in the lease of a luxury box or club seat. Therefore, the fiscal effect of the bill is the sales tax on the lease payment less the taxable value of amenities.

The bill would primarily affect leases at 5 facilities: Miller Park, the Bradley Center, Lambeau Field, Camp Randall Stadium and the Kohl Center. The bill may have a minor fiscal effect due to leases at additional facilities, such as the Alliant Energy Center (Madison) and the Fox Cities Stadium (Appleton).

Based on published information and discussion with facility staff concerning the number of luxury boxes and club seats at the five facilities noted above as well as data on box revenues and costs of currently taxable amenities included with such facilities, the bill would increase sales subject to sales taxes by about $22.3 million per year. State sales taxes would therefore increase by about $1.1 million per year. In addition, sales taxes for counties, the baseball stadium district, and the football stadium district would increase by about $120,000 per year.

INDIVIDUAL INCOME TAX

Current law permits a credit for 12% of property taxes or rent constituting property taxes of up to $2,500 ($1,250 for married separate filers). Under the bill, the credit for renters would increase to 16% of the first $2,500 of rent constituting property taxes ($1,250 for married separate filers). The credit for property owners would remain the same as it is under current law. The bill would decrease residential property taxes by 2.4%; this property tax reduction would reduce school property tax credits claimed by homeowners. However, it is assumed that the bill would have no immediate impact on renters' credit claims. The combined effect of the decrease in residential property taxes and increase in the credit for renters on state income tax revenues is a decrease of $20.3 million.

CORPORATE INCOME AND FRANCHISE TAX

Property taxes and sales and use taxes paid by businesses are a deductible expense. This bill would increase property taxes on personal property by 5.4%, on commercial real estate by 6.0%, and manufacturing real estate by 6.3%. Businesses would therefore have higher deduction when calculating income subject to taxes. Available data do not permit a reasonable estimate of the decrease in corporate income and franchise taxes this part of the bill could engender.

For purposes of calculating a taxpayer's state franchise or income tax, the bill would require taxpayers to add to taxable income any amount the taxpayer deducted or excluded under the Internal Revenue Code for management and service fees, interest expenses and costs, intangible expenses and costs, and any other expenses and costs between related parties.

The taxpayer would not be required to add certain expenses and costs to taxable income under certain circumstances. In addition, DOR could allow the tax consequences of a transaction if a taxpayer was able to demonstrate a valid, good faith business purpose other than tax avoidance, if the business purpose was commensurate with the transaction's tax benefit, or if the transaction had economic substance apart from the tax benefit.

Data are not available to estimate the fiscal effect of disallowing these deductions. This is because the data do not distinguish between those deductions that are between related parties and those that are between unrelated parties. DOR believes the fiscal effect would be substantial. For example, based on the corporate tax sample compiled by DOR, if 10% of deductions appearing on the federal income tax return under "rent," "interest" and "other deductions" were assumed to be related parties and therefore disallowed as a result of this bill, corporate tax revenues would increase by an estimated $50 million annually. If 50% of those deductions were assumed to be disallowed, corporate tax revenue would increase by an estimated $260 million annually. Other types of deductions not included in these estimates would also be disallowed as a result of this bill. These estimates should be considered highly speculative.

CURRENT REFUNDABLE TAX CREDITS

Under the Homestead Credit, certain low-income households receive a payment from the state to help offset part of their property taxes or rents. This bill would decrease residential property taxes by 2.4%, thereby reducing credit claims by homeowners. It is assumed that the property tax reduction has no immediate impact on rent and thus no immediate impact on Homestead Credit claims by renters. A decrease in residential property taxes of 2.4% would decrease the cost of the Homestead Tax Credit by $0.8 million.

The farmland preservation credit equals a percentage of property taxes for owners of farm property with 35 or more acres of farmland who meet certain zoning or land use and conservation requirements. The increase in property taxes on agricultural land engendered by this bill would be offset by the decrease in property taxes on agricultural residences, resulting in an insignificant change in total property taxes and therefore a minimal change in farmland preservation credits.

The farmland tax relief credit equals a percentage of property taxes for owners of farmland. The Department of Revenue sets the percentage at a level that results in credit expenditures of $15 million annually, funded by segregated lottery revenues. The 8% increase in property taxes on agricultural land engendered by this bill would not change the total amount expended by this credit, but the credit percentage would need to be decreased in order to expend the $15 million required.

UTILITY TAXES

Certain utility companies are exempt from local property taxes and subject instead to a state utility tax calculated on an ad valorem basis. DOR annually determines the value of these companies' property allocable to Wisconsin for taxation purposes. The tax on airlines, conservation and regulation, municipal electric association projects, pipelines, and railroads is calculated using the state average net property tax rate. For telephone companies, the tax is based on the taxable property in a given municipality times the prior year's net rate applicable in that municipality. Revenues from the airline and railroad tax are paid to the transportation fund. All other revenues are paid to the general fund.

Assuming that the 6.8% increase in the statewide net tax rate calculated earlier would apply, and using projected utility taxes for FY04, the bill would increase ad valorem utility taxes by a total of $7.9 million, of which $6.7 million would accrue to the general fund and $1.2 million would accrue to SEG Transportation funds.

The proposal has no effect on shared revenue utility payments to municipalities and counties. However, the bill would affect state payments to localities with railroad terminal and railroad repair facilities. In 2003, this payment, called the terminal tax distrubution, totaled $1.15 million. Under the bill, this payment would increase by 6.8%, or $78,000, funded from the transportation fund.

EXEMPT COMPUTERS

Under current law, computing equipment such as mainframe computers, minicomputers, stand-alone and networked personal computers, servers, terminals, monitors, disc drives, printers, and certain software are exempt from property taxation. Annually, the state makes a payment to localities where this exempt property is located equal to the amount of property taxes that would be have been levied on this property. Payments are made in May based on tax rates used to determine tax bills in the prior December. The payment in May 2003 was about $73.4 million.

Under the bill, only those computers owned by a business that has less than $5,000,000 in annual gross receipts would qualify for the tax exemption. This would reduce state payments for exempt computers and increase the amount of taxable property (thereby potentially reducing the statewide average net property tax rate). Based on information from the corporate tax sample and adjusting for non-corporate businesses, it is assumed that 75% of computers currently qualifying for exemption would lose the exemption under the bill. This percentage is highly speculative. A 75% reduction in exempt computers would reduce the exempt computer aid payment by 75%, or $55.1 million.

SUMMARY

One-time funding shift: The bill shifts $469.3 million in spending from the fourth Monday in July to the fourth Monday in March. This produces a one-time increase in fiscal year spending for the fiscal year when the proposed homeowner's credit is first paid.

Annual basis – SEG: Revenue for the SEG-Transportation fund would increase by $1.2 million due to the increase in state ad valorem utility taxes on airlines and railroads.

Annual basis – GPR: The net effect on the ending balance would be an increase of $43.4 million plus a potential increase in corporate income and franchise taxes. This is the net effect of the following: (a) A $20.3 million decrease in individual income taxes. (b) An increase of $1.1 million in sales taxes and $6.7 million in state ad valorem utility taxes, for a total revenue increase of $7.8 million. (c) A net reduction in expenditures of $55.9 million, including $55.1 million in exempt computer aids and $0.8 million in homestead credits. The potential increase in the corporate income and franchise taxes cannot be estimated due to the highly speculative nature of the revenue change for this tax.

Annual basis - Local: Sales tax revenues for counties and stadium districts would increase by $120,000. terminal tax distribution on railroad terminals and railriad repair facilities would increase by $78.000. All local governments would see a decline in computer aids by $55.1 million, based on the assumption that 50% of comptuers would no longer qualify for exemption.

Long-Range Fiscal Implications

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **03-3470/2**	Introduction Number **AB-756**

Subject

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

Under current law, the $469,305,000 in school levies credits for the 2004/05 property tax year will be paid on the fourth Monday in July 2004 (FY05). Under the bill, the $469,305,000 would be distributed via a homeowner's credit paid on the fourth Monday in March 2004 (FY04). The bill therefore increases FY04 expenditures by $469,305,000.

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance	78,000	-55,100,000
Aids to Individuals or Organizations		-800,000
TOTAL State Costs by Category	**$78,000**	**$-55,900,000**
B. State Costs by Source of Funds		
GPR		-55,900,000
FED		
PRO/PRS		
SEG/SEG-S	78,000	

III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)

	Increased Rev	Decreased Rev
GPR Taxes	$7,800,000	$-20,300,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S	1,200,000	
TOTAL State Revenues	**$9,000,000**	**$-20,300,000**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$-55,822,000	$
NET CHANGE IN REVENUE	$-11,300,000	$-37,302,000

Agency/Prepared By	**Authorized Signature**	**Date**