

## Fiscal Estimate - 2005 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>05-3237/2</b>	<b>Introduction Number</b> <b>AB-625</b>									
<b>Subject</b> Sales tax on drop shipments										
<b>Fiscal Effect</b>										
<b>State:</b>										
<input type="checkbox"/> No State Fiscal Effect <input checked="" type="checkbox"/> Indeterminate <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 33%;"><input type="checkbox"/> Increase Existing Appropriations</td> <td style="width: 33%;"><input type="checkbox"/> Increase Existing Revenues</td> <td style="width: 33%;"><input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget</td> </tr> <tr> <td><input type="checkbox"/> Decrease Existing Appropriations</td> <td><input checked="" type="checkbox"/> Decrease Existing Revenues</td> <td style="text-align: center;"><input checked="" type="checkbox"/> Yes      <input type="checkbox"/> No</td> </tr> <tr> <td><input type="checkbox"/> Create New Appropriations</td> <td></td> <td><input type="checkbox"/> Decrease Costs</td> </tr> </table>		<input type="checkbox"/> Increase Existing Appropriations	<input type="checkbox"/> Increase Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget	<input type="checkbox"/> Decrease Existing Appropriations	<input checked="" type="checkbox"/> Decrease Existing Revenues	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Create New Appropriations		<input type="checkbox"/> Decrease Costs
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<input type="checkbox"/> Create New Appropriations		<input type="checkbox"/> Decrease Costs								
<b>Local:</b>										
<input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 33%;">                 1. <input type="checkbox"/> Increase Costs                     <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory             </td> <td style="width: 33%;">                 3. <input type="checkbox"/> Increase Revenue                     <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory             </td> <td style="width: 33%; vertical-align: top;">                 5. Types of Local Government Units Affected  <input type="checkbox"/> Towns      <input type="checkbox"/> Village      <input type="checkbox"/> Cities  <input checked="" type="checkbox"/> Counties      <input checked="" type="checkbox"/> Others      <u>Stadium districts</u>  <input type="checkbox"/> School Districts      <input type="checkbox"/> WTCS Districts             </td> </tr> <tr> <td>                 2. <input type="checkbox"/> Decrease Costs                     <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory             </td> <td>                 4. <input checked="" type="checkbox"/> Decrease Revenue                     <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory             </td> <td></td> </tr> </table>		1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <u>Stadium districts</u> <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts	2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	4. <input checked="" type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory				
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<b>Fund Sources Affected</b>										
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS										
<b>Affected Ch. 20 Appropriations</b>										
<b>Agency/Prepared By</b> DOR/ Blair Kruger (608) 266-1310	<b>Authorized Signature</b> Paul Ziegler (608) 266-5773	<b>Date</b> 8/4/2005								

**Fiscal Estimate Narratives**  
**DOR 8/24/2005**

LRB Number	<b>05-3237/2</b>	Introduction Number	<b>AB-625</b>	Estimate Type	<b>Original</b>
<b>Subject</b>					
Sales tax on drop shipments					

**Assumptions Used in Arriving at Fiscal Estimate**

Under current law, tangible personal property that is sold by an out-of-state retailer and delivered in Wisconsin by a third party is subject to sales tax. The third party collects the tax and remits it to the state.

The bill repeals s. 77.51 (14) (d), a part of the definition of "sale", "retail sale" and equivalent terms. The effect of the repeal is that tangible personal property that is sold by an out-of-state retailer and delivered in Wisconsin by a third party would continue to be taxable. However, the third party would no longer collect and remit sales tax to the state; instead, the purchaser would remit use tax.

In plain language, the bill changes the liability for tax on drop shipments. A drop shipment occurs when, for example, an Illinois retailer sells tangible personal property to a Wisconsin customer and instructs the Wisconsin manufacturer of the property (the third party) to deliver the property directly to the Wisconsin customer. Under current law, the manufacturer pays sales tax; under the bill, the purchaser would pay use tax.

Since drop shipments of tangible personal property remain taxable under the bill, the decrease in sales tax would, in principle, be offset by an increase in use tax. However, compliance with use tax liability is poor and so a revenue reduction is likely under the bill. Data to estimate the revenue reduction are not available.

County sales tax and stadium taxes would also likely decrease under the bill.

Data are not available regarding the number of additional returns that would be filed under the bill and the administrative costs that would result. However, the Department expects to be able to absorb these costs.

**Long-Range Fiscal Implications**