

### Fiscal Estimate - 2013 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>13-2036/1</b>	<b>Introduction Number</b> <b>AB-0167</b>	
<b>Description</b> Assessing property used for aging cheese as manufacturing property		
<b>Fiscal Effect</b>		
<b>State:</b>		
<input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <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		
<b>Local:</b>		
<input type="checkbox"/> No Local Government Costs <input checked="" type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs      3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs      4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		
5. Types of Local Government Units Affected <input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others      lake., sanitary, metro sewer <input checked="" type="checkbox"/> School Districts <input checked="" type="checkbox"/> WTCS Districts		
<b>Fund Sources Affected</b>		
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input checked="" type="checkbox"/> SEG <input type="checkbox"/> SEGS Conservation Fund		
<b>Affected Ch. 20 Appropriations</b>		
<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
DOR/ Daniel Huegel (608) 266-5705	Paul Ziegler (608) 266-5773	5/22/2013

## Fiscal Estimate Narratives

DOR 5/22/2013

LRB Number	13-2036/1	Introduction Number	AB-0167	Estimate Type	Original
<b>Description</b> Assessing property used for aging cheese as manufacturing property					

### Assumptions Used in Arriving at Fiscal Estimate

#### CURRENT LAW

Manufacturing property is assessed by the Department of Revenue (DOR). Machinery and specific processing equipment used exclusively and directly in the production process in manufacturing tangible personal property may be exempt from property taxation if certain conditions are met.

The determination of whether an activity is manufacturing depends, in part, on how the activity is classified under the Standard Industrial Classification Manual, 1987 edition, published by the U. S. Office of Management and Budget (SIC Manual).

The SIC Manual assigns the manufacture of natural, processed, and imitation cheese to SIC Code 2022, which is deemed a manufacturing activity. Therefore, for property tax purposes in Wisconsin, cheese manufacturing is considered a manufacturing activity subject to DOR assessment. Since aging cheese can be considered part of the manufacturing process, the machinery and equipment used in that part of the factory may qualify for the exemption noted in the first paragraph. In contrast, storage of cheese is not generally considered part of the manufacturing process, and any equipment and machinery used in the part of the factory where storage takes place would not qualify for the exemption noted in the first paragraph.

The SIC Manual assigns the aging of cheese that takes place at a location other than the cheese factory to SIC Code 4222 (refrigerated warehouse and storage), which is deemed a commercial activity. Since this is not defined as a manufacturing activity, the tax exemption noted in the first paragraph would not apply.

#### PROPOSED LAW

Under the bill, all facilities used for the aging of cheese would be considered as manufacturers for property tax purposes. Aging would also be defined so that the timing of the aging process would be as determined by the maker, owner, or processor of the cheese.

#### PROPERTY TAXES

As noted earlier, the portion of cheese factories used to store cheese do not qualify for the property tax exemption noted in the first paragraph. Under the bill, the maker, owner, or processor of the cheese may, in effect, determine when the cheese aging process stops. It is therefore possible that some facilities currently deemed to be used for cheese storage could be reclassified as used for cheese aging, and therefore eligible for the exemption noted in the first paragraph.

Based on data from the DOR manufacturing assessment system, the total market value of the taxable real and personal property of cheese manufacturers in the state in 2012 was about \$580 million. For purposes of this estimate, it is assumed that around 5%, or about \$29 million, of this would represent property that could become exempt under the bill. At the statewide average tax rate of \$20.64 per \$1,000 full value, the shift in property taxes from the exempted property to continuing taxpayers could be about \$599,000 ( $\$29,000,000 \times 0.02064$ ).

Based on information from the 2013 edition of Wisconsin Manufacturers and Commerce's Business Services Directory, there were 15 facilities in the state under SIC Code 4222. Based on assessment data found by searching internet assessment records on various county and municipal websites, data for 12 of these were found. Projecting from this data, the estimated market value of these 15 facilities for 2012 was about \$60 million. For purposes of this estimate, it is assumed that 5%, or \$3 million, of this would represent property that could become exempt under the bill. At the statewide average tax rate of \$20.64 per \$1,000 full value, the shift in property taxes from the exempted property to continuing taxpayers could be about \$62,000 ( $\$3,000,000 \times 0.02064$ ).

Based on the above, the total shift in property taxes from the exempted property to continuing taxpayers could be about \$661,000.

The state currently imposes a property tax, the state forestation tax, at a rate of about \$0.1697 per \$1,000 full value. Proceeds from this tax are deposited in the conservation fund (a segregated fund). This bill could reduce this tax by about \$5,430 ( $\$32,000,000 \times 0.001697$ ).

#### **CORPORATE INCOME TAXATION**

The bill would also have an effect on corporate income taxes. Income from manufacturing property in Wisconsin is generally eligible for the manufacturing and agriculture credit under sections 71.07 (5n) and 71.28 (5n) of the statutes. Property that would begin to be assessed as manufacturing property under the bill would also begin to qualify for the manufacturing and agriculture credit. The amount of the resultant reduction in income and franchise tax collections is unknown.

#### **ADMINISTRATIVE COSTS**

The DOR would incur some cost to administer the law changes under the bill. These costs can be absorbed in current budgeted resources.

#### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

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<b>LRB Number</b> 13-2036/1		<b>Introduction Number</b> AB-0167	
<b>Description</b> Assessing property used for aging cheese as manufacturing property			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes	\$		\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
<b>TOTAL State Costs by Category</b>	<b>\$</b>		<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
	Increased Rev		Decreased Rev
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			-5,430
<b>TOTAL State Revenues</b>	<b>\$</b>		<b>\$-5,430</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
	<u>State</u>		<u>Local</u>
NET CHANGE IN COSTS	\$		\$
NET CHANGE IN REVENUE	\$-5,430		\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
DOR/ Daniel Huegel (608) 266-5705		Paul Ziegler (608) 266-5773	5/22/2013