



HOWARD MARKLEIN

STATE SENATOR • 17TH SENATE DISTRICT

September 18, 2019

**Senate Committee on Agriculture, Revenue & Financial Institutions
Testimony on Senate Bill (SB) 351**

Thank you committee members for hearing Senate Bill 351 (SB 351), which creates a narrow Temporary Storage Rule in Wisconsin. This Temporary Storage Rule would provide a sales and use tax exemption for construction contractors that do work in tax-free areas in other states. Thank you Sen. Petrowski for co-authoring this legislation.

The idea for this legislation was brought to me by one of my constituents who works for a construction contractor located near the state line. His company often does work in Illinois and routinely has its building materials shipped to Wisconsin and stored here temporarily prior to transporting the materials to Illinois for use in a construction project. This is common practice for many companies in Wisconsin located near the state line.

Unfortunately, due to Wisconsin's current tax structure, these temporarily stored materials are assessed Wisconsin sales and use tax. This taxation puts Wisconsin companies at no less than a 5% disadvantage when bidding for projects in tax-free areas in other states compared to companies located in the same state as the project.

SB 351 creates a narrow Temporary Storage Rule for Wisconsin. This legislation will allow construction companies to receive a Wisconsin sales and use tax exemption for tangible personal property that is first shipped to Wisconsin, stored for less than 120 days, and then used in the fulfillment of real property construction in another state at a non-profit organization, public school district, or business district where business tax incentives have been granted, such as Enterprise Zones. This exemption also applies to property that is altered by converting, fabricating, manufacturing, printing, processing, or shaping before its use outside of Wisconsin.

The Department of Revenue (DOR) estimates that the fiscal effect of SB 351 will be about \$917,000 per year, although DOR cautions that this is a rough estimate and the actual impact will most likely be lower. This is close to the estimate that the non-partisan Legislative Fiscal Bureau (LFB) provided during the budget process of about \$650,000 per year.

Illinois and Iowa both have much broader Temporary Storage Rules and this legislation moves Wisconsin toward equal footing with our neighbors. This means that currently, companies in our neighboring states do not have the same disadvantage when they come to Wisconsin to work in tax-free areas that Wisconsin companies have when they go to Illinois or Iowa to do similar work. SB 351 is a small step toward leveling the playing field for Wisconsin companies.

SB 351 is supported by the Wisconsin Association of Property Taxpayers (WPT) and Wisconsin Manufacturers and Commerce (WMC). Thank you again to the committee for hearing this proposal, and your timely action on the bill.

Initially I would like to thank chair Marklein and the members of the Senate Committee on Agriculture, Revenue, and Financial Institutions for allowing me this opportunity to testify in favor of Senate Bill 351, a bill which would implement a narrow "TEMPORARY STORAGE RULE FOR WISCONSIN."

My name is Jim Root, and I'm currently employed by Precision Drive & Control Inc.(PDC) as their financial manager. PDC, a Monroe WI corporation, has an electrical contracting division.

It is this division which brings me here today.

As a contractor operating on the state line, we do a fair amount of business in the State of Illinois. Normal operating procurement of building materials for our company would be to have the purchased goods shipped to our main warehouse in Monroe. When doing work in Illinois, materials would be transferred from Monroe to a respective jobsite.

Under current law, these building materials received in Monroe and shipped into Illinois would have a Wisconsin tax obligation, since Wisconsin does not have a temporary storage rule.

The absence of a temporary storage rule puts PDC in a competitive disadvantage with Illinois contractors in certain situations. Those situations would involve doing work in tax incentive districts called Enterprise Zones as well as public bodies such as public schools, universities and local governments. For Illinois contractors who receive their building materials within the State of Illinois, there is no tax obligation for these entities. PDC would have a 5.5% tax obligation to the State of Wisconsin.

Strategies such as bypassing the Monroe warehouse and direct shipping your goods to an Illinois jobsite allows us to take advantage of the Illinois tax incentives. This practice is less than ideal, as space is limited on a jobsite and safeguarding the inventory is challenging.

The argument for a Wisconsin temporary storage rule is reinforced when neighboring states have a temporary storage rules, such as the State of Illinois. As a bordering state, since Illinois has a temporary storage rule, Illinois contractors can come into our state and transport in their building materials and not have a limiting Illinois tax obligation. These out-of-state contractors can work on Wisconsin sites such as UW System facilities, technical colleges, public schools, county, city, village or towns and take advantage of expanded sales and use tax exemptions that were offered as early as 2016. No tax owed for both Wisconsin and Illinois contractors.

Located in Monroe, Precision Drive & Control Inc. is merely 20 miles away from multiple enterprise zones and public entities located in Illinois. I ask you full consideration for the passage of Bill 351 so that contractors such as ourselves, positioned to offer services to a neighboring state, can compete on an even playing field.

WMC

WISCONSIN MANUFACTURERS & COMMERCE

To: Senate Committee on Agriculture, Revenue, and Financial Institutions
From: Corydon Fish, Wisconsin Manufacturers & Commerce
Date: September 18, 2019
Re: Testimony in Support of Senate Bill 351

Thank you Chairman Marklein and members of the Senate Committee on Agriculture, Revenue, and Financial Institutions for hearing my testimony in support of Senate Bill 351. This bill supports a vital subsector of Wisconsin's manufacturing economy: prefabricated construction. From homes to NFL stadiums, Wisconsin companies have a national foothold in this industry. However, a provision in Wisconsin's sales-use tax statute puts Wisconsin prefabricators at a disadvantage when bidding on certain out-of-state projects, leading to fewer Wisconsin jobs and less tax revenue for the state. Senator Marklein's and Representative Tranel's bill would help correct this problem.

Wisconsin Manufacturers & Commerce (WMC) is the state chamber of commerce and largest general business association in Wisconsin. We were founded over 100 years ago, and are proud to represent approximately 3,800 member companies of all sizes and from every sector of our economy. Our mission is to make Wisconsin the most competitive state in the nation in which to do business. One way WMC does this is by working to make our tax code more competitive.

Wisconsin currently exempts certain construction projects from the sales-use tax if those projects are for qualified exempt entities such as local units of government. For example, if a Wisconsin steel prefabricator purchased materials, which are then stored, manufactured into I-beams, and used in real property construction in Wisconsin for qualified exempt entities, the contractor does not owe Wisconsin sales or use tax on the cost of the materials. However, if that same prefabricator went through the same process but then used those I-beams in a construction project for a qualified exempt entity in another state, they would have to pay sales tax on the cost of the materials. The additional 5.0-5.5 percent cost the sales tax adds to a bid can make it challenging for Wisconsin prefabricators to successfully bid on out-of-state construction projects for exempt entities.

Senate Bill 351 (SB 351) creates a sales tax exemption for tangible personal property that is temporarily stored in the state (up to 90 days) and is then altered and used in construction activity for certain entities – such as school districts – in another state. This bill is a surgical fix to a market distortion created by our tax code. The legislation would make Wisconsin businesses more competitive by allowing prefabricators to win more bids, which in turn would create more business activity by prefabricators in our state and generate more property and income tax revenue for the state of Wisconsin.

If this bill becomes law, Wisconsin would join fourteen other states (including our neighbors Michigan and Minnesota) and Washington D.C. that have a sales tax exemption for prefabricators that temporarily store materials for manufacture in a state and then use those materials in construction elsewhere.

Thank you again Chairman Marklein and members of the Committee for the opportunity to testify. This legislation will help make Wisconsin businesses better able to compete and make Wisconsin a better place to do business.