State of Wisconsin • DEPARTMENT OF REVENUE

2135 RIMROCK ROAD • Mail Stop 624A • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX (608) 266-5718
http://www.revenue.wi.gov

Scott Walker
Governor

Richard G. Chandler
Secretary of Revenue

July 30, 2014

Department of Revenue Testimony to the Steering Committee for Personal Property Tax

Chairman Stroebel and members of the committee, thank you for inviting the Department of Revenue to testify today. With me today are John Koskinen, Division Administrator for the Research and Policy Division at DOR, and Scott Shields, Director for the Office of Technical and Assessment Services in the State and Local Finance Division at DOR. I will start by giving a general overview of the personal property tax, and Scott will be available as a resource to the committee for technical questions about the assessment of personal property and the administration of the personal property tax. John will follow my comments by providing the committee historical context for changes to the personal property tax and a short discussion of how Wisconsin compares with other states.

For several years at the beginning of statehood (and even before), the property tax was the sole source of revenue for state and local governments. This included a tax on almost all personal property, including the personal property of residential households and intangible personal property, both of which are no longer assessed for personal property taxation. Over the years, exemptions to the personal property tax proliferated and other forms of taxation were relied upon.

With personal property tax exemptions increasing in specificity, the complexity of personal property assessment has increased. When the legislature has exempted large amounts of personal property in the past, it has commonly offset the reduction in property tax base with increased state aid payments. Currently, counties and municipalities receive an exempt computer aid payment to offset the personal property tax exemption for computer equipment.

One of the challenges with assessing personal property is discovery; that is, finding items subject to tax given the mobility of personal property. Additionally, the value is often unknown given the limited or unknown sales of personal property, therefore, the cost at time of acquisition less depreciation may or may not be completely accurate.

Local assessors, whom you will hear from later today, assess the personal property of non-manufacturing businesses, and DOR assesses the personal property of manufacturers. Assessors along with municipal and county clerks, treasurers, and attorneys all have a role with personal property assessment. The time and resources expended on personal property tax assessment are often questioned given the amount of value and tax collections associated with personal property. I will allow the local assessors to describe their individual experiences with the personal property tax, but allow me to provide a general overview focused on DOR's assessment of manufacturers.

By March 1, businesses must report their personal property on a local statement of personal property or to DOR on Form M-P if they are manufacturers. The Wisconsin Property Assessment Manual advises assessors to audit the return. They are not required to accept the values reported by the business.

Personal property used exclusively and directly in the manufacturing process is exempt. Manufacturers, who are assessed by DOR, must report their taxable and exempt personal property. DOR generally conducts audits of personal property tax returns every five years. DOR would complete an audit earlier if we noticed substantial changes in the property being reported. When DOR audits a personal property tax return, it reviews the manufacturer's books, including its fixed asset list. To verify the accuracy of the personal property tax return initially, DOR sends a questionnaire to new manufacturers and assists them in determining which items of personal property to list as taxable and which to list as exempt manufacturing machines and equipment. Finally, statutes provide penalties for inaccurate or late filing to DOR, including loss of exemptions. DOR has found that the vast majority of manufacturing personal property returns are filed completely and timely. Almost all property tax appeals by manufacturers are related to real property, not personal property.

Our Manufacturing and Utility Bureau estimates that 10% of their resources are spent assessing personal property. Personal property accounts for approximately 17.5% of property tax collected from manufacturers statewide. A full exemption of personal property for the property tax is likely to lead to a marked increase, over the short term, in disputes about what is real versus personal property.

Like all property taxes, manufacturers pay their taxes to the local municipality. Personal property is assessed and taxed on a separate tax bill. Generally, personal property tax must be paid in full by January 31. This differs from real property tax, which may be paid in installments. Delinquent personal property tax becomes a tax lien against the person, while real property tax delinquencies are liens against the property.

Thank you again for the opportunity to discuss the personal property tax.