



## Legislative Fiscal Bureau

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TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 625: Modify Sales and Use Tax Treatment of Tangible Personal Property Delivered Through Drop-Shipments

Assembly Bill 625 would modify the sales and use tax treatment of certain drop-shipments. AB 625 was introduced on August 24, 2005, and referred to the Assembly Committee on Ways and Means. On November 14, 2005, that Committee recommended the bill for passage on a vote of 13 to 0. The bill was then referred to the Joint Committee on Finance.

### **CURRENT LAW**

Wisconsin imposes a 5% general sales tax on the gross receipts from the sale and rental of personal property and selected services; counties have the option of imposing an additional 0.5% local sales tax. The tax is imposed on the sale, lease, or rental of all tangible personal property not specifically exempted and on services specifically listed in the statutes. A use tax at the same rate is imposed on goods or services purchased out-of-state and used in Wisconsin, if the good or service would be taxable if purchased in Wisconsin.

A "drop-shipment" occurs when a seller who has received an order from a customer places the order with a third party (generally a manufacturer or delivery company) and the third party delivers the order to the customer without the seller taking possession. Under current law, when such a retailer is an out-of-state retailer who is not registered to collect Wisconsin sales or use tax and the third party who delivers the property is subject to the state's sales and use tax requirements, the third party is required to collect the applicable sales tax from the customer and remit the tax to the Department of Revenue.

## **SUMMARY OF BILL**

AB 625 would delete current law provisions related to sales tax liability in the case of drop-shipments. As a result, a Wisconsin customer receiving taxable tangible personal property through a drop-shipment from an out-of-state retailer would be responsible to pay the state's use tax on such property. These provisions would first apply to tangible personal property delivered on the first day of the second month beginning after publication.

## **FISCAL EFFECT**

Under the bill, drop shipments of tangible personal property would continue to be subject to the state sales and use tax, but the liability for the tax would change. Therefore, while sales tax collections from the third-party shippers of drop-shipments would be reduced, use tax collections from consumers would, in theory, be increased to offset such reductions. However, as compliance with the use tax is poor, it is anticipated that the bill would result in a net reduction in sales and use tax collections.

Data to estimate current sales tax collections from drop-shipments and the likely reduction in net sales and use tax collections under the bill are not available. Therefore, the fiscal effect is estimated as being an unknown revenue loss, starting in 2006-07.

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