

FISCAL ESTIMATE FORM

1999 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB # 99-4588/3

INTRODUCTION # AB 852

Admin. Rule #

Subject

Create Sales and Use Tax Exemption for Digital Broadcasting Equipment

Fiscal Effect

- State:** No State Fiscal Effect
 Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation
- | | | |
|--|--|---|
| <input type="checkbox"/> Increase Existing Appropriation | <input type="checkbox"/> Increase Existing Revenues | <input type="checkbox"/> Increase Costs - May be Possible to Absorb Within Agency's Budget <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> Decrease Existing Appropriation | <input checked="" type="checkbox"/> Decrease Existing Revenues | |
| <input type="checkbox"/> Create New Appropriation | <input type="checkbox"/> Decrease Costs | |

Local: No Local Government Costs

- | | | |
|--|---|--|
| 1. <input type="checkbox"/> Increase Costs
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 3. <input type="checkbox"/> Increase Revenues
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | 5. Types of Local Governmental Units Affected:
<input type="checkbox"/> Towns <input type="checkbox"/> Villages <input type="checkbox"/> Cities
<input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <u>SWPBDP</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 Revenues
<input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory | |

Fund Sources Affected

- GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations

Assumptions Used in Arriving at Fiscal Estimate:

This proposal would create a sales and use tax exemption for digital-broadcasting equipment if purchased and used by a radio or television station. Currently, such items are considered tangible personal property and subject to the sales and use tax.

The Federal Communications Commission (FCC) has required that most television broadcasters convert to digital broadcasting by 2002. The FCC order will require new investment in digital transmission equipment by most of Wisconsin's 29 commercial TV stations that currently use analog equipment. The FCC has not yet mandated a switch to digital broadcasting for radio stations; therefore, the state's 250 commercial radio stations would not need to invest in digital broadcasting equipment in the near future.

As currently written, "digital broadcasting equipment" is not defined and could extend to all equipment used by broadcasters if indirectly part of the "digital" broadcast function of the TV or radio station. If so, the exemption may apply to all tangible personal property used in the production or transmission of digital broadcasts, such as office computers, ancillary broadcasting equipment, and other supplies used by the TV or radio station. The fiscal effect of such a broad exemption cannot be determined from available data. Nonetheless, the annual revenue loss associated with a more narrow interpretation of the proposal is also unknown because of considerable uncertainty regarding the conversion time frame and the potential expenditure required for digital broadcasting.

TV Transmission Equipment

Based on data from the National Association of Broadcasters (NAB), the average cost of digital transmission equipment will be about \$3 million per TV station. Under the proposal, there would be a

(continued on page two)

Long-Range Fiscal Implications:

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
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revenue loss of \$4.4 million ($\$3 \text{ million} \times 29 \times .05$) over the next two years as Wisconsin TV stations switch to digital transmission equipment. There would also be an ongoing loss as replacement equipment is purchased.

TV Production Equipment

TV stations would not need to switch to digital production until the majority of their viewers had access to digital broadcasts. The Wisconsin Broadcasting Association (WBA) and NAB estimate that the cost to upgrade to digital production equipment would be \$6 million for large TV stations and \$2.5 million for small stations. According to the WBA, there are 10 large and 8 small production TV stations in the state; therefore, total production equipment investment would be \$80 million [$(\$6 \text{ million} \times 10) + (\$2.5 \text{ million} \times 8)$]. The potential revenue loss would be \$4 million ($\$80 \text{ million} \times .05$). Again, there would be an unknown annual revenue loss as replacement digital production equipment is purchased.

Radio Broadcast Equipment

According to the 1997-98 Wisconsin Blue Book, 250 commercial radio stations currently operate in Wisconsin. WBA estimates that the cost of conversion to DAB will be about \$150,000 per station, resulting in potential digital broadcasting equipment investment of \$37.5 million ($\$150,000 \times 250$). The revenue loss associated with the investment in digital radio broadcasting equipment would be \$1.9 million ($\$37.5 \text{ million} \times .05$). It is unknown when such expenditures would occur, and there would be an ongoing annual sales tax revenue loss as digital equipment is replaced or purchased.

Local Fiscal Effect

County and stadium sales tax revenues would decline as TV and radio stations make investments in digital broadcasting equipment. Long-term local sales tax revenues would be reduced as digital equipment is replaced or purchased.

Summary of Fiscal Effect

One-time fiscal effect:*

	State Fiscal Effect (\$m)	Local Fiscal Effect (\$)
TV Transmission	-4.4	-0.32
TV Production	-4.0	-0.32
Radio	-1.9	-0.11
Total	-10.3	-0.75

*The actual year(s) in which the one-time revenue loss occurs depends on when the investment is undertaken. On-going reductions in state and local sales taxes will occur as equipment is replaced—these are not shown.

YEB 3/16/00

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

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I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	Annualized Fiscal impact on State funds from:	
A. State Costs by Category	Increased Costs	Decreased Costs
State Operations - Salaries and Fringe	\$	\$ -
(FTE Position Changes)	(FTE)	(- FTE)
State Operations-Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	\$	\$ -
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$	\$ -
FED		-
PRO/PRS		-
SEG/SEG-S		-
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	Increased Rev.	Decreased Rev.
GPR Taxes	\$	\$ - See Text
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	\$	\$ - See Text

NET ANNUALIZED FISCAL IMPACT

	<u>STATE</u>	<u>LOCAL</u>
NET CHANGE IN COSTS	\$ _____	\$ _____
NET CHANGE IN REVENUES	\$ See Text _____	\$ See Text _____

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