

**FISCAL ESTIMATE FORM**

**1999 Session**

- ORIGINAL     UPDATED  
 CORRECTED     SUPPLEMENTAL

**LRB # 99-0812/1**

**INTRODUCTION # SB 375**

**Admin. Rule #**

**Subject**

**Create Sales and Use Tax Exemption for Providing Access to the Internet**

**Fiscal Effect**

**State:**  No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

- Increase Existing Appropriation     Increase Existing Revenues  
 Decrease Existing Appropriation     Decrease Existing Revenues  
 Create New Appropriation

Increase Costs - May be Possible to Absorb Within Agency's Budget  Yes  No

Decrease Costs

**Local:**  No Local Government Costs

1.  Increase Costs  
 Permissive  Mandatory  
2.  Decrease Costs  
 Permissive  Mandatory

3.  Increase Revenues  
 Permissive  Mandatory  
4.  Decrease Revenues  
 Permissive  Mandatory

5. Types of Local Governmental Units Affected:

- Towns  Villages  Cities  
 Counties  Others SWBPBD  
 School Districts  WTCS Districts

**Fund Sources Affected**

- GPR  FED  PRO  PRS  SEG  SEG-S

**Affected Ch. 20 Appropriations**

**Assumptions Used in Arriving at Fiscal Estimate:**

This bill attempts to establish a sales and use tax exemption for access to, and use of, the Internet. For purposes of this fiscal note, it is assumed that access and use of the Internet are limited to direct Internet access and online information services, web site advertising services, and web site hosting and design services. Transfers of taxable tangible personal property via the Internet are not considered to be use of the Internet for purposes of this fiscal note; these would remain taxable if this bill were enacted.

Under current law, Internet access fees are taxable telecommunication services. However, the Department of Revenue does not feel that this bill, as currently drafted, would exempt Internet access fees from the sales and use tax. In addition, under current law online information service providers, advertising services, and web site design services are not currently taxable.

If Internet access services were to become exempt, Wisconsin sales tax revenue would decline by \$7.6 million annually, with higher long-term revenue implications as Internet use and access fee revenues increase. According to Zona Research and Jupiter Communications, revenue generated from direct Internet access services that are sold to both businesses and households is projected to be an estimated \$9.7 billion nationally in 2000. While many Internet services are offering free access to customers, revenue from high-speed access and business Internet access services are expected to propel revenue growth for access providers. Of the total Internet access revenue, nearly \$8.3 billion would be considered access services that are taxable under Wisconsin's current statutes.

Assuming Wisconsin's share of Internet access revenue is the same as Wisconsin's share of personal income, the amount of taxable Internet access revenue in 2000 will be approximately \$151.9 million (\$8.3 billion x .0183). Therefore, the amount of sales tax revenue associated with Internet access charges is \$7.6 million (\$151.9 million x .05).

(continued on page two)

**Long-Range Fiscal Implications:**

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In 1998, local sales tax revenues collected by Wisconsin counties and the Southeast Wisconsin Professional Baseball Park District were approximately 6.24% of state sales tax revenues. If Internet access fees were to become exempt, and assuming that the percentage of local revenue still applies, local sales tax revenues would be reduced by approximately \$474,000 ( $\$7.6 \text{ million} \times .0624$ ).

YEB 2/24/00

**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		-
<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$ -</b>
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		-
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$ - see text</b>

**NET ANNUALIZED FISCAL IMPACT**

STATE

LOCAL

NET CHANGE IN COSTS	\$ _____	\$ _____
NET CHANGE IN REVENUES	\$ - see text _____	\$ - see text _____

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