

**STATE OF WISCONSIN**

**REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS**

**1999 SENATE BILL 442**

[Introduced by Senator Risser; cosponsored by Representatives Underheim and Miller.]

**General Nature of Proposal**

The bill authorizes the creation of a local cultural arts district by a city with a population of more than 150,000. The bill grants the district certain powers, including bonding authority, condemnation authority and other authority necessary for the creation and operation of a cultural arts district. The provisions of the bill affecting tax exemptions are more fully described below:

The bill creates a property tax exemption for the property of a local cultural arts district. However, under the bill, the property tax exemption does not apply to the property of a local cultural arts district that is not part of the physical structure of a cultural arts facility, if that property is used for a retail business or a restaurant, unless the retail business or restaurant is operated by the local cultural arts district or by a nonprofit corporation, organization or association. Under the bill, the exemption also does not apply to parking lots or parking structures that are not used to support the operation of a local cultural arts district. In addition, under the bill, a city sponsoring a local cultural arts district is authorized to annually collect a sum, in lieu of property taxes, from the district. However, the sum may not exceed the amount that would be levied by the city as a property tax on the exempt property of the district.

Under the bill, the income of a local cultural arts district is exempt from the income tax and the franchise tax and the income and interest from the district's obligations are exempt from the income tax. In addition, the income and interest from bonds that are issued by the Wisconsin Health and Educational Facilities Authority with respect to a local cultural arts district are exempt from the income tax. Finally, under the bill, goods and services purchased by a local cultural arts district are exempt from the sales and use tax.

**Legality Involved**

There are no questions of legality involved in the above-described provisions.

**Fiscal Effect Upon the State and Its Subdivisions**

The Department of Revenue estimates the fiscal effect of the bill as follows:

The bill provides for creation of a local cultural arts district in cities with population of more than 150,000, and is intended to allow the creation of such a district in Madison.

### State Fiscal Effect

The bill provides a corporate income and franchise tax exemption for income earned by such districts, and a sales and use tax exemption for sales to or purchases by such districts. These districts would be exempt from corporate and sales taxes under current law as a government entity, so the exemptions have no fiscal effect.

Income of bonds issued by a local cultural arts district would be exempt from the individual and corporate income tax. Information on the amount of bonds issued by the proposed Madison district or other potential districts is not available. Assuming a 6.25% interest rate and a 6.5% marginal tax rate, every \$10,000,000 in outstanding bonds would result in an annual revenue loss of approximately \$40,000 ( $\$10,000,000 \times 0.0625 \times 0.065$ ), if all the bonds were held by individuals subject to the Wisconsin income tax.

SEG state forestry taxes would decrease by \$20 for each \$100,000 of exempt property under the bill.

### Local Fiscal Effect

The bill exempts from property tax the cultural arts facilities of a cultural arts district, with two exceptions:

- property that is not part of a cultural arts facility if the property is used for a retail business or restaurant that is not exempt from property tax, unless the business or retail is operated by the cultural arts district or certain nonprofit associations, and
- parking lots or parking structures that are not used to support the operation of a cultural arts district.

At a tax rate of \$26 per \$1,000 of value, for each \$100,000 of exempt property of a cultural arts district that would be taxable in the absence of the bill, \$2,600 ( $\$100,000 \times 0.026$ ) in property taxes are shifted from a cultural arts district to owners of other taxable property.

Also under the bill, a sponsoring city of a cultural arts district may fix and collect a sum to be paid annually in lieu of the amount of property taxes that would be levied by the city on the property that is exempt. If a sponsoring city fixes such a payment at a rate of \$9 per \$1,000 of value, revenue of the sponsoring municipality would increase by \$900 for each \$100,000 of value ( $\$100,000 \times 0.009$ ).

**Public Policy Involved**

The provisions of the bill affecting tax exemptions are good public policy. However, the committee recommends that the standing committees that subsequently review the bill carefully scrutinize any potential unfair competitive advantages that a business that might be operated by a cultural arts district, such as a restaurant, may receive over competing private sector businesses not operated by such a district due to the tax exemptions provided to the district in the bill.