2765

Gov Agency: General Fund Taxes—Other General Fund Taxes—Utility Tax on Car Line Companies

Recommendations:

Paper No. 124 Alternative 3

Comments: The governor has proposed reducing the gross revenue tax rate on car line companies—companies who lease or furnish car line equipment for railroads—from 3% to 2.5% of gross earnings. DOA says they want the car line companies tax rate to be more in line with companies that are taxed under ad valorem taxation. As such, they are reducing the rate to bring it more in line with what DOA believes car line companies would be assessed under ad valorem.

LFB argues that when the numbers are actually crunched, the gross revenue tax rate would actually have to be raised to 4.9% to generate the same amount of revenue as would be generated using the ad valorem tax base ($55.6 million). So, if the goal is to make tax collections for car line companies closer to an ad valorem system, the current rate would actually have to be increased to 4.9%. Probably not what the governor wants to do. Best to leave it alone—maintain current law—(Alt. 3).

Prepared by: Julie

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Utility Tax on Car Line Companies (General Fund Taxes -- Other General Fund Taxes)

[LFB 1999-01 Budget Summary: Page 49, # 4]

CURRENT LAW

Public utilities in Wisconsin are subject to state taxation in lieu of local general property taxes. The state utility tax takes one of two general forms, depending on the type of company: a license fee based on a percentage of gross revenues or earnings of the company, or an ad valorem tax based on the state-assessed value of company property, multiplied by the statewide average property tax rate. Car line companies are subject to the gross revenues tax, at a rate of 3% of gross earnings. The tax is paid to the Department of Revenue (DOR) in semi-annual installments as follows: (a) a pre-payment on September 10 of the taxable year (based on estimated revenue for the taxable year); and (b) a final payment on April 15 in the year following the taxable year (when the revenue for the taxable year is known).

A "car line company" is any person, other than a person operating a railroad, that is engaged in the business of leasing or furnishing car line equipment to a railroad. "Car line equipment" includes railroad cars and other equipment used in railroad transportation. Gross earnings are defined as all receipts by a car line company from the operation of equipment in this state. Earnings from interstate businesses are allocated to Wisconsin based on the ratio of Wisconsin car miles to total car miles.

GOVERNOR

Reduce the gross revenues tax rate on car line companies from 3% to 2.5% of gross earnings of such companies in this state.

This provision would first apply to taxable years beginning on January 1 of the year in which the bill generally takes effect, unless the bill's general effective date is after July 31. In that case, the tax decrease would first apply to taxable years beginning on January 1 of the following year.

DISCUSSION POINTS

1. The gross earnings of car line companies subject to the gross revenues tax are estimated to be $20.0 million in 1999-00 and in 2000-01. Under current law, the gross receipts tax on car line companies is estimated at $600,000 annually. Assuming that the proposed reduction in the tax rate from 3% to 2.5% would first apply to the taxable year beginning January 1, 2000, the bill would reduce collections by $100,000 in 2000-01. The administration did not include a fiscal effect for the tax reduction in the bill.

2. Two other types of Wisconsin utilities are subject to the gross revenues tax. Light, heat and power companies are taxed at the rate of 0.97% on revenues from the sale of gas services and at the rate of 3.19% on all other gross revenues. Electric cooperative associations are taxed at a flat 3.19% on gross revenues. Until recently, telecommunications companies were subject to gross revenues taxation at the rate of 5.77%. Beginning with taxes due for 1998, the gross revenues license fee on telecommunications companies was eliminated and replaced with the ad valorem tax.

3. According to the administration, reducing the gross revenues tax on car line companies from 3% to 2.5% would bring the tax rate closer to the rate at which such companies would be taxed under ad valorem taxation. With the exception of telecommunications companies, the ad valorem tax rate is the statewide average property tax rate (for telecommunications companies the tax rate is based on local property tax rates). The statewide average property tax rate was 2.2% in 1998 and is projected to remain at approximately this rate through the next biennium.

4. It should be noted that the base to which the tax rate is applied is different under gross revenues and ad valorem taxation. For ad valorem taxes, the tax rate is applied to the assessed value of company property. Under gross revenues taxation, the tax rate is applied to a company's gross receipts in this state. Therefore, similarity of tax rates would not guarantee similarity in taxes collected under the two forms of taxation.

5. To compare projected tax collections under the two systems, it would be necessary to obtain assessed values of car line companies. DOR does not conduct such assessments. However, during the 1995-97 legislative session, the ad valorem tax base for car line companies was estimated to be approximately $55.6 million and the tax base for the gross receipts tax was estimated at $25.0 million. At the current statewide average property tax rate of 2.2%, the ad valorem tax on a base of $55.6 million would generate tax collections of $1.2 million. Using the gross revenues tax base for the same period, a 4.9% gross revenues tax rate would be needed to generate the same amount of tax. Based on this comparison, it could be argued that reducing the gross receipts tax rate would increase the disparity in tax collections under the two systems, rather than make them more comparable.

6. If the goal is to adjust the rate of the gross revenues tax on car line companies to

make collections comparable under the two tax systems, the figures presented above indicate that the current rate would have to be increased from 3% to 4.9%. Based on current revenue estimates, the fiscal effect would be an estimated increase in car line taxes over current law of $380,000 in 2000-01. This estimate assumes that the increase would first apply to the taxable year beginning on January 1, 2000.

ALTERNATIVES

No. 1. Approve the Governor's recommendation to reduce the gross revenues tax rate on car line companies from 3% to 2.5% of receipts of such companies in this state and estimate the fiscal effect to be a reduction in general fund tax collections of $100,000 in 2000-01.

Alternative 1	**GPR**
1999-01 REVENUE (Change to Bill)	-$100,000

2nd 2. Increase the gross revenues tax rate on car line companies from 3% to 4.9% of gross receipts of such companies in this state. Specify that the tax increase would first apply to taxable years beginning on January 1 of the year in which the bill generally takes effect, unless the bill's general effective date is after July 31, in which case the increase would first apply to taxable years beginning on January 1 of the following year. Estimate the fiscal effect to be an increase in general fund tax collections of $380,000 in 2000-01.

Alternative 2	**GPR**
1999-01 REVENUE (Change to Bill)	$380,000

#1 3. Maintain current law.

Prepared by: Faith Russell