

Fiscal Estimate - 2001 Session

Original Updated Corrected Supplemental

LRB Number 01-0698/1 **Introduction Number** AB-342

Subject
Sales tax exemption for Internet access services

Fiscal Effect

State:

No State Fiscal Effect
 Indeterminate

Increase Existing Appropriations Increase Existing Revenues Increase Costs - May be possible to absorb within agency's budget
 Decrease Existing Appropriations Decrease Existing Revenues Yes No
 Create New Appropriations Decrease Costs

Local:

No Local Government Costs
 Indeterminate

1. Increase Costs 3. Increase Revenue
 Permissive Mandatory Permissive Mandatory

2. Decrease Costs 4. Decrease Revenue
 Permissive Mandatory Permissive Mandatory

5. Types of Local Government Units Affected

Towns Village Cities
 Counties Others Baseball Pk & Football Stadium
 School Districts WTCS Districts

Fund Sources Affected **Affected Ch. 20 Appropriations**

GPR FED PRO PRS SEG SEGS

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Fiscal Estimate Narratives

DOR 5/17/01

LRB Number	01-0698/1	Introduction Number	AB-342	Estimate Type	Original
Subject					
Sales tax exemption for Internet access services					

Assumptions Used in Arriving at Fiscal Estimate

The bill would exempt Internet access services from sales and use tax. Under the bill, Internet access services mean providing a connection to the Internet, including providing communication or navigation software, an electronic mail address, electronic mail software, news headlines, space for a Web site or Web site services that are incidental to providing that connection, but excluding telephone services.

According to the Strategis Group, U.S. business Internet access revenues are estimated to grow annually 70% and are estimated to be \$17.1 billion by 2003. Assuming a 70% annual growth rate, 2002 U.S. business Internet access revenues are estimated to be \$10.1 billion (\$17.1 billion/1.7). Assuming 80% of total business Internet access revenue is considered access services that are taxable under current law, taxable U.S. business Internet access revenue is estimated to be \$8 billion in 2002 (\$10.1 billion x 80%) and \$13.7 billion in 2003 (\$17.1 billion x 80%).

According to Forrester Research, Inc. the number of U.S. households with Internet access will be 65.1 million in 2002 and 68 million in 2003. Assuming a \$20 monthly access fee, Internet access revenue for U.S. household Internet access is estimated to be \$15.6 billion (65.1 million x \$20 monthly fee x 12 months) in 2002 and \$16.3 billion (68 million x \$20 monthly fee x 12 months) in 2003.

Thus, total 2002 Internet access revenue is estimated to be \$23.7 billion in 2002 (\$8 billion U.S. business Internet access revenue + \$15.6 billion U.S. household Internet access revenue) and \$30 billion in 2003 (\$13.7 billion business Internet access revenue + \$16.3 billion U.S. household Internet access revenue).

Wisconsin's share of total U.S. personal income was 1.81% in the first quarter of 2001. Assuming Wisconsin's share of Internet access revenue is the same as its share of personal income and assuming this share does not change from 2001 through 2003, the amount of taxable Internet access revenue is estimated to be \$429.2 million (\$23.7 billion x 1.81%) in 2002 and \$544 million (\$30 billion x 1.81%) in 2003. Therefore, the amount of sales tax revenue associated with Internet access charges is \$21.5 million (\$429.2 million x 5%) in 2002 and \$27.2 million (\$544 million x 5%) in 2003.

For FY02, county and stadium sales tax revenues are estimated to be 7.064% of state sales tax. Thus, the revenue loss to local governments is estimated to be \$1.6 million in 2002 and \$2.1 million in 2003.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject Sales tax exemption for Internet access services			
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 funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
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, ets.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$-21,500,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-21,500,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-21,500,000	\$-1,600,000
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