



## Fiscal Estimate Narratives

DOR 9/12/2003

LRB Number	03-1297/1	Introduction Number	AB-234	Estimate Type	Corrected
<b>Subject</b>					
Internet access services					

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, internet access service is a taxable telecommunications service. Under AB 234, internet access service would be exempt from sales and use tax as of July 1, 2005.

Since the exemption under AB 234 would not take effect until July 1, 2005 (FY06), the bill does not have a fiscal effect in the current biennium. However, state sales taxes would decrease by an estimated \$34.1 million in FY06 under the bill, as discussed below.

Discussion and Analysis. Since the mid-1990s, sales of internet access have increased rapidly due to increasing numbers of, mostly dial up, internet users. Over the next several years, sales of internet access are likely to continue to increase rapidly due to increased use of more costly high-speed connections, such as cable modems and digital subscriber lines offered by telephone companies. Therefore, it is assumed that sales of internet access will increase by 20% per year.

The Department estimates that sales tax is paid on about 50% of internet access charges currently. However, that rate is expected to increase substantially as a result of current audits of and negotiations with internet service providers. The estimated fiscal effect assumes that an 80% compliance rate will be achieved by FY06 when the bill takes effect.

According to the U.S. Bureau of the Census, nationwide sales of internet access were about \$21,649 million in 2001. Assuming internet access sales are distributed the same as the numbers of internet users and allowing for sales to governments and other exempt users, Wisconsin sales of internet access would have been about \$375 million in 2001. Further assuming sales of internet access increase by 20% per year, Wisconsin sales of internet access would be about \$852 million in FY06.

Based on Federal Communications Commission data, an estimated 858,000 Wisconsin households and small businesses had dial up internet access; about 236,000 Wisconsin households and small businesses had high speed internet access; and about 11,000 other businesses and institutions had high speed access in FY02. Assuming users paid \$10 per month for dial up access, residential and small businesses paid \$50 per month for high-speed access, and other businesses and institutions paid \$500 per month for high-speed access, Wisconsin sales of internet access were an estimated \$412 million in FY02. Assuming sales of internet access increase at 20% per year, Wisconsin sales of internet access would be about \$854 million in FY06.

The average of the two estimates of Wisconsin sales of internet access is \$853 million in FY06. Assuming a 80% compliance rate for collections of sales tax on internet access, sales taxes would decrease by about \$34.1 million in FY06.

County, baseball park district and football stadium district sales and use taxes are currently about 7.27% of state taxes. Assuming this percentage remains constant, local government sales taxes would decrease by about \$2.6 million in FY06 under the bill.

Administrative costs of the bill are minimal and would be absorbed by the Department.

Since the bill does not have a fiscal effect in the current biennium, a worksheet is not attached to this fiscal estimate.

### Long-Range Fiscal Implications