

Fiscal Estimate Narratives
DOR 2/19/2003

LRB Number 03-0182/1	Introduction Number AB-24	Estimate Type Original
Subject Sale of tangible personal property that is delivered in this state		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, tangible personal property that is sold by an out-of-state vendor and delivered in Wisconsin by a third party is subject to sales tax. The third party collects the tax and remits it to the state. Under the bill, tangible personal property that is sold by an out-of-state vendor and delivered in Wisconsin by a third party would continue to be taxable. However, under the bill, the third party would no longer collect and remit sales tax to the state; instead, the purchaser would remit use tax.

In plain language, the bill changes the liability for tax on drop shipments. A drop shipment occurs when, for example, an Illinois vendor buys tangible personal property from a Wisconsin manufacturer, sells that property to a Wisconsin customer and instructs the Wisconsin manufacturer to deliver the property directly to the Wisconsin customer. Under current law, the manufacturer (the third party) pays sales tax; under the bill, the purchaser would pay use tax.

Since drop shipments of tangible personal property remain taxable under the bill, the decrease in sales tax would, in principle, be offset by an increase in use tax. However, the decrease in sales taxes is not likely to be fully offset by an increase in use taxes. The degree to which the offset would occur depends on the type of purchaser. If the purchaser is a business and therefore subject to audit, use tax is more likely to be paid than if the purchaser is a private individual-- compliance with use tax liability by private individuals is notoriously poor. Data are not available to estimate the net decrease in taxes under the bill.

County and professional baseball ballpark and football stadium district taxes would also decrease under the bill.

Data are not available regarding the number of additional returns that would be filed and administrative costs under the bill. However, the Department expects to be able to absorb those costs.

Long-Range Fiscal Implications