

Fiscal Estimate - 2005 Session

Original Updated Corrected Supplemental

LRB Number 05-0576/1		Introduction Number AB-44		
Subject Homeowner's property tax credit; school property income tax credit; imposing sales and use tax on furnishing luxury boxes; payments to related entities; computer property tax exemption				
Fiscal Effect				
State:				
<input type="checkbox"/> No State Fiscal Effect				
<input type="checkbox"/> Indeterminate				
<input type="checkbox"/> Increase Existing Appropriations		<input checked="" type="checkbox"/> Increase Existing Revenues		
<input checked="" type="checkbox"/> Decrease Existing Appropriations		<input checked="" type="checkbox"/> Decrease Existing Revenues		
<input checked="" type="checkbox"/> Create New Appropriations		<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget		
		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
<input type="checkbox"/> Decrease Costs				
Local:				
<input type="checkbox"/> No Local Government Costs				
<input type="checkbox"/> Indeterminate				
1. <input type="checkbox"/> Increase Costs		3. <input checked="" type="checkbox"/> Increase Revenue		
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		<input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory		
2. <input type="checkbox"/> Decrease Costs		4. <input checked="" type="checkbox"/> Decrease Revenue		
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		<input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory		
5. Types of Local Government Units Affected				
<input checked="" type="checkbox"/> Towns		<input checked="" type="checkbox"/> Village		
<input checked="" type="checkbox"/> Counties		<input checked="" type="checkbox"/> Cities sewerage, lake, and stadium		
<input checked="" type="checkbox"/> School Districts		<input checked="" type="checkbox"/> WTCS Districts		
Fund Sources Affected		Affected Ch. 20 Appropriations		
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input checked="" type="checkbox"/> SEG <input type="checkbox"/> SEGS		20.566(2)(am),(2)(r); 20.835(1)(e),(2)(c), (3)(b),(3)(q),3(s); 20.855 (4)(q)		
Agency/Prepared By		Authorized Signature		Date
DOR/ Daniel Huegel (608) 266-5705		Rebecca Boldt (608) 266-6785		2/21/2005

Fiscal Estimate Narratives

DOR 2/21/2005

LRB Number	05-0576/1	Introduction Number	AB-44	Estimate Type	Original
Subject					
Homeowner's property tax credit; school property income tax credit; imposing sales and use tax on furnishing luxury boxes; payments to related entities; computer property tax exemption					

Assumptions Used in Arriving at Fiscal Estimate

PROPERTY TAXES

School Levies Tax Credit:

The state school levies credit reduces property taxes for all property taxpayers. The credit is allocated to municipalities based on their share of statewide school levies in the previous three years. The credit for 2003/04 tax bills was based on school levies for the 2000/01, 2001/02, and 2002/03 property tax years. Municipalities allocate the credit to each property based on its share of the municipality's total assessed value. The state pays the credit to municipalities on the fourth Monday in July. The credit is currently funded at \$469.3 million.

The bill repeals the school levies credit and shifts the funds to the homeowner's tax credit created by the bill.

Lottery and Gaming Tax Credit:

The lottery and gaming tax credit reduces property taxes for a property owner's primary residence. The credit equals the school property tax on a certain amount of the full value of a qualifying property. The credit is funded from net proceeds of the state lottery. On 2003/04 tax bills, the credit equaled the school property tax levy on the first \$8,700 in full value. About \$118.2 million was distributed (\$115.7 million for homes on the property tax roll and \$2.5 million for mobile homes subject to monthly parking fees and therefore not on the property tax roll). The credit is paid to municipalities on the fourth Monday in March.

The bill repeals the lottery and gaming tax credit and shifts funds to the homeowner's credit created under the bill.

Homeowner's Tax Credit:

The bill creates a credit called the homeowner's tax credit. The credit would equal the school property tax on a certain amount, not to exceed \$60,000, of the full value of a primary residence. Funding would equal \$469.3 million (from the school levies credit) plus available funds from net lottery proceeds (from the lottery and gaming credit). The homeowner's tax credit would be paid to municipalities on the fourth Monday in March.

If the bill had been in effect for the 2003/04 property tax year, about \$587.5 million would have been distributed through the homeowner's property tax credit. The value on which the credit would have been paid would be substantially higher than under the lottery and gaming credit. As the value on which the credit is paid rises, so does the number of residences on which the credit is paid on the entire value. The Department of Revenue (DOR) does not have data on the distribution of home values. It is therefore not possible to reasonably estimate the value on which the homeowner's property tax credit would have been paid.

Since the school levies credit is paid on the fourth Monday in July but the homeowner's tax credit is paid on the fourth Monday in March, there would be a one-time effect on state fiscal year budgets. For example, if this bill had gone into effect for the 2003/04 tax year, the \$469.3 million in school levies credit currently paid in July 2004 (FY05) would have been paid in March 2004 (FY04).

Net Property Tax Levy and Rate

The average net tax rate is currently calculated by dividing the total tax levy minus the school levies credit by the state total equalized value. The lottery and gaming credit is not taken into consideration because it does not apply to all taxpayers. Since the bill does not change this calculation, the average net tax rate

would be calculated by dividing the total tax levy by the state total equalized value.

Under current law, for 2003/04 taxes, the total gross tax levy was \$7,687.3 million, the school levies credit was \$469.3 million, the net tax levy was \$7,218.0 million, the total equalized value was \$360,710.2 million, and the statewide average net tax rate was \$20.01 per \$1,000 equalized value.

Under the bill, for 2003/04 taxes, the total gross and net tax levy would have been \$7,687.3 million, the total equalized value was \$360,710.2 million, and the statewide average net tax rate would have been \$21.31 per \$1,000 equalized value, for an increase of \$1.30 per \$1,000, or 6.5%, from current law.

Property Taxes by Property Class

Under the bill, a shift in property taxes would occur since school levies credits are paid to all property owners but the proposed credit is paid to homeowners only. Based on property taxes by class for 2003/04, the bill would have caused the following percentage changes in property taxes after property tax credits: residential and other, -2.5%; commercial, +6.1%; manufacturing, +6.0%; agricultural land, +7.6%; swamp and waste land, +7.3%; forest land, +7.2%; and personal property, +6.1%.

Tax Incremental Financing (TIF) Levies

Tax incremental financing (TIF) is a financing method that allows a municipality to recover project costs associated with public improvements made in a tax incremental district (TID). For every TID, a base value is established. Municipalities with a TID are allowed to retain the county, technical college, school district, and municipal property taxes levied on any increase in the value over the base value, which constitute the tax increment. Under both current law and the bill, the TIF incremental levy is based on tax rates before the application of property tax credits. As a result, the bill will have no effect on TIF incremental levies.

SALES AND USE TAX

The bill imposes sales taxes on the furnishing of luxury boxes, sky boxes, and club seats at a sports facility if sales of admissions to sporting events at the facility are subject to sales taxes. Under the bill, a sports facility is a facility where sporting events are held, regardless of whether that is the exclusive use of the facility.

Sales tax is currently imposed on the fair market value of amenities, such as admission tickets, parking, and catering, that are included in the lease of a luxury box, sky box, or club seat. Therefore, the fiscal effect of the bill is the sales tax on payments for luxury boxes, sky boxes, and club seats less the taxable value of amenities.

The bill would apply primarily to sales of luxury boxes, sky boxes, and club seats at five facilities: Miller Park, the Bradley Center, Lambeau Field, Camp Randall Stadium and the Kohl Center. The bill may have a minor fiscal effect due to sales of luxury boxes, sky boxes, and club seats at additional facilities, such as the Dairyland Greyhound Racetrack, Geneva Lakes Greyhound Track, St. Croix Meadows Greyhound Racing Track, the Alliant Energy Center, and the Fox Cities Stadium (Appleton).

Based on published information and discussion with facility staff concerning the number of luxury boxes and club seats at the five facilities noted above as well as data on box revenues and costs of currently taxable amenities included with such facilities, the bill would increase sales subject to sales taxes by about \$22.3 million per year. State sales taxes would therefore increase by about \$1.1 million per year. In addition, sales taxes for counties, the baseball stadium district, and the football stadium district would increase by about \$0.1 million per year.

INDIVIDUAL INCOME TAX

Current law permits a credit for 12% of property taxes or rent constituting property taxes of up to \$2,500 (\$1,250 for married separate filers). Under the bill, the credit for renters would increase to 16% of the first \$2,500 of rent constituting property taxes (\$1,250 for married separate filers), and the credit for property owners would not be changed. The bill would decrease residential property taxes by 2.5%. It is assumed that the 6.1% increase in commercial property taxes would have no immediate effect on rents. The combined effect of the bill on credit claims would be an increase in credit claims (and a decrease in individual income tax collections) of \$19.8 million.

CORPORATE INCOME AND FRANCHISE TAX

Property taxes and sales and use taxes paid by businesses are a deductible expense. This bill would increase property taxes on personal property by 6.1%, on commercial real estate by 6.1%, and

manufacturing real estate by 6.0%. Businesses would therefore have a higher deduction when calculating income subject to taxes. Available data do not permit a reasonable estimate of the decrease in corporate income and franchise taxes this part of the bill could engender.

For purposes of calculating a taxpayer's state franchise or income tax, the bill would generally require taxpayers to add to taxable income any amount the taxpayer deducted or excluded under the Internal Revenue Code for management and service fees, interest expenses and costs, intangible expenses and costs, and any other expenses and costs between related parties.

The DOR could allow the tax consequences of a transaction if a taxpayer was able to demonstrate a valid, good faith business purpose other than tax avoidance and the transaction had economic substance apart from the tax benefit, or if the business purpose was commensurate with the transaction's tax benefit.

The taxpayer would not be required to add certain expenses and costs to taxable income if all of the following conditions were met: the transaction did not have tax avoidance as its principal purpose; the related entity to whom the taxpayer paid the expenses directly or indirectly paid the amounts to a person who was not a related entity; and the related entity was subject to tax on its net income in this state, or another state or U. S. possession, and the net income included expenses received from the taxpayer and was subject to a tax rate not less than 3% below the Wisconsin corporate tax rate.

Data are not available to estimate the fiscal effect of disallowing these deductions. This is because the data do not distinguish between those deductions that are between related parties and those that are between unrelated parties. The DOR believes the fiscal effect would be substantial.

As illustration, based on the combined reporting sample compiled by the DOR, if 10% of deductions appearing on the federal income tax return under "rent", "interest", and "other deductions" were assumed to be attributable to related parties and therefore disallowed as a result of the bill, corporate tax revenues would increase by an estimated \$50 million annually. If 50% of those deductions were assumed to be disallowed, corporate tax revenue would increase by an estimated \$250 million annually. Other types of deductions not included in these estimates could also be disallowed as a result of the bill. These estimates should be considered as speculative.

CURRENT REFUNDABLE TAX CREDITS

Under the homestead credit, certain low-income households receive a payment from the state to help offset part of their property taxes or rents. The bill would decrease residential property taxes by 2.5%, thereby reducing credit claims by homeowners. It is assumed that the 6.1% increase in commercial property taxes would have no immediate impact on rent and thus no immediate impact on homestead credit claims. The effect of the bill on the homestead tax credit would be a decrease in credits (and an increase in funds available for other uses) of \$0.6 million.

The farmland preservation credit pays a percentage of property taxes for owners of farm property with 35 or more acres of farmland who meet certain zoning, land use, and conservation requirements. The 7.6% increase in property taxes on agricultural land engendered by the bill would be offset by the decrease in property taxes on agricultural residences, resulting in an insignificant change in farmland preservation credits.

The farmland tax relief credit, funded from lottery net proceeds, equals a percentage of property taxes for owners of farmland. The DOR sets the percentage so that credit expenditures are \$15 million annually. As a result, the 7.6% increase in property taxes on agricultural land engendered by this bill would not affect the amount expended for this credit.

UTILITY TAXES

Certain utilities are exempt from local property taxes and subject instead to a state tax calculated on an ad valorem basis. The tax on airlines, conservation and regulation, municipal electric association projects, pipelines, and railroads is calculated using the state average net property tax rate. The tax on telephone companies is calculated using tax rates in the municipality where telephone property is located. Revenues from the airline and railroad tax are paid to the transportation fund. All other revenues are paid to the general fund.

Based on a 6.5% increase in the statewide net tax rate, and using utility taxes for FY04, the bill would increase ad valorem utility taxes by a total of \$6.9 million, of which \$5.7 million would accrue to the general fund and \$1.2 million would accrue to SEG Transportation funds.

EXEMPT COMPUTERS

Under current law, the state makes payments to local governments that levy taxes and in which exempt computer equipment is located equal to the property taxes that would have been levied on this property. Payments are made in May based on tax rates used to determine tax bills in the prior December. The payment in May 2004 was about \$73.4 million.

Under the bill, only those computers owned by a business that has less than \$5 million in annual gross receipts would qualify for the tax exemption. This would reduce state payments for exempt computers and increase the amount of taxable property, thereby potentially reducing the statewide average net property tax rate.

DOR does not have data that would allow an accurate estimate of the amount of exempt computer property that would lose exemption under the bill. However, based on information from the corporate tax sample and adjusting for non-corporate businesses, it is possible that, under the bill, as much as 75% of computers currently exempt could lose their exemption. A 75% reduction in exempt computers would reduce the exempt computer aid payment by 75%, or \$55.1 million. The 75% figure should be considered speculative, since the actual percentage could be far higher or lower.

TERMINAL TAX DISTRIBUTION

Under the terminal tax distribution, the state pays municipalities that portion of the state ad valorem tax on railroads that is caused by certain railroad terminal property. The payment equals the value allocated to qualifying terminal property times the statewide average net property tax rate. One payment is made for railroad-owned docks, ore yards, piers, wharves, and grain elevators; total payments in 2003 were \$1.1 million. A second payment is made for railroad-owned repair facilities; total payments in 2003 were \$0.1 million. The total distribution under both payments in 2003 was \$1.2 million.

Based on a 6.5% increase in the statewide net tax rate, the bill would increase the terminal tax distribution by about \$0.1 million (from SEG-Transportation funds).

SUMMARY

One-time funding shift: The bill shifts \$469.3 million in spending from the fourth Monday in July to the fourth Monday in March. This produces a one-time increase in fiscal year spending for the fiscal year when the proposed homeowner's credit is first paid.

Annual basis – SEG: The net effect on the ending balance would be an increase of \$1.1 million. This is the net effect of the \$1.2 million increase in state ad valorem utility taxes and the \$0.1 million increase in terminal tax distributions to local governments.

Annual basis – GPR: The net effect on the ending balance would be an increase of \$42.7 million. This is the net effect of the following: (a) a \$19.8 million decrease in individual income taxes; (b) an increase of \$1.1 million in sales taxes and \$5.7 million in state ad valorem utility taxes, for a total revenue increase of \$6.8 million; and (c) a net reduction in expenditures of \$55.1 million for exempt computer aids and \$0.6 million for homestead credits, for a total decrease of \$55.7 million. The potential increase in the corporate income and franchise taxes cannot be estimated due to the highly speculative nature of the revenue change for this tax.

Annual basis – Local: The net effect on local governments would be a decrease in revenue of \$54.9 million. This is the net effect of a \$55.1 million reduction in exempt computer aids offset by a \$0.1 million increase in local sales taxes and a \$0.1 million increase in the terminal tax distribution.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-0576/1		Introduction Number AB-44	
Subject			
Homeowner's property tax credit; school property income tax credit; imposing sales and use tax on furnishing luxury boxes; payments to related entities; computer property tax exemption			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
Under current law, the \$469,305,000 in school levies credits for the 2005/06 school year will be paid on the fourth Monday in July 2005 (FY06). Under the bill, the \$469,305,000 would be distributed via a homeowners credit paid on the fourth Monday in March 2005 (FY05). The bill therefore increases FY05 expenditures by \$469,305,000.			
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	100,000		-55,100,000
Aids to Individuals or Organizations			-600,000
TOTAL State Costs by Category	\$100,000		\$-55,700,000
B. State Costs by Source of Funds			
GPR			-55,700,000
FED			
PRO/PRS			
SEG/SEG-S (Transportation)	100,000		
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		\$6,800,000	\$-19,800,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S		1,200,000	
TOTAL State Revenues		\$8,000,000	\$-19,800,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$-55,600,000	\$
NET CHANGE IN REVENUE		\$-11,800,000	\$-54,900,000
Agency/Prepared By		Authorized Signature	Date
DOR/ Daniel Huegel (608) 266-5705		Rebecca Boldt (608) 266-6785	2/21/2005