

Fiscal Estimate - 2005 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-1108/3	Introduction Number AB-126	
Subject		
Sales and use tax exemption for building materials sold to a builder for a local government's or nonprofit organization's construction project		
Fiscal Effect		
State: <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <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 type="checkbox"/> Increase Revenue 5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities 2. <input checked="" type="checkbox"/> Decrease Costs 4. <input checked="" type="checkbox"/> Decrease Revenue <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <u>Stadium districts</u> <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory <input checked="" type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
Fund Sources Affected Affected Ch. 20 Appropriations <input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		
Agency/Prepared By	Authorized Signature	Date
DOR/ Blair Kruger (608) 266-1310	Rebecca Boldt (608) 266-6785	2/24/2005

Fiscal Estimate Narratives

DOR 2/24/2005

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Assumptions Used in Arriving at Fiscal Estimate

Under current law, school districts, municipalities, counties and nonprofit organizations do not pay sales or use tax on their purchases of tangible personal property. However, construction contractors pay sales or use tax on purchases of tangible personal property used in real property construction regardless of whether the construction is for an entity that is exempt from sales and use tax.

Under the bill, tangible personal property that becomes a component of a facility owned by a school district, municipality, county or nonprofit organization would be exempt from sales and use taxes when purchased by a construction contractor pursuant to a contract with a school district, municipality, county, or nonprofit organization. A facility under the bill would include any building, shelter, parking lot, parking garage, athletic field, athletic park, storm sewer, or water supply system but would not include a highway, street, or road.

School Construction. Based on Department of Public Instruction data on school district debt referenda, school construction expenditures averaged \$207.8 million per year from 2001 through 2004. According to the 1997 Census of Construction, 37.4% percent of construction costs are materials and, therefore, the annual cost of school construction materials is estimated to be \$77.7 million (\$207.8 million x 37.4%). Based on discussions with school districts, school districts directly purchase an estimated 80% of the materials used in school construction. Thus, about \$15.5 million (\$77.7 million x 20%) of construction materials are currently taxable purchases of contractors pursuant to contracts with school districts.

Local Government Construction. Based on Department of Revenue Municipal Financial Reports, total town, village, city and county capital outlays were \$408.5 million in 2003, excluding highway, street, road-related facilities and emergency communication outlays. Assuming 37.4% percent of construction costs are assumed to be materials, the cost of municipal and county construction materials is estimated to be \$152.7 million (\$408.5 million x 37.4%). Based on discussions with local governments, it is estimated that local governments purchase 20% of the construction materials used in municipal and county construction. Therefore, about \$122.2 million of construction materials used for municipal and county construction are currently taxable purchases of contractors (\$152.8 million x 80%).

Nonprofit Construction. With the exception of construction expenditures by religious organizations, data on construction expenditures by nonprofit organizations are unavailable. Nonprofit organizations affected by the bill would include some private schools and hospitals as well as a variety of interest groups and associations.

According to the US Census of Construction, religious organizations' nationwide annual construction expenditures averaged about \$8.3 billion from 2000-2004. Assuming the share spent in Wisconsin is the same as Wisconsin's share of Personal Income (1.83%), construction expenditures of religious organizations in Wisconsin would total \$151.4 million. Assuming 37.4% was for materials and assuming 50% of the materials were purchased tax-free by a religious organization, about \$28.3 million (\$151.4 mil. x 37.4% x 50%) of construction materials used for religious construction currently would be taxable purchases of contractors.

Total Expenditures for Construction Materials Affected under the Bill. Total annual expenditures for taxable construction materials for school, local government and nonprofit construction are an estimated \$166.0 million (\$15.5 mil. schools, \$122.2 mil. local governments, plus \$28.3 mil. churches) in 2003. Since school districts, municipalities and counties are likely to restrain spending in future years, total taxable construction spending is assumed to increase at only 2% per year from 2003 through FY06 and FY07, respectively. Further assuming 90% compliance, state sales and use taxes would decrease by \$7.9 million (\$166.0 mil. x 1.051% x 90% x 5%) in FY06 and \$8.0 million (\$166.0 mil. x 1.072% x 90% x 5%) in FY07 under the bill.

County and stadium district sales taxes were 7.72% of state sales tax revenues in FY04. Assuming this percentage does not change, county and stadium district sales taxes would decrease by about \$0.6 million per year under the bill.

School District and Local Government Spending. To the extent that construction contracts would not include state, county or stadium district sales and use taxes under the bill, school district and local government construction expenditures would decrease by \$7.0 million in FY06 and \$7.2 million in FY07. Administrative costs related to purchasing and project management functions of entities that currently purchase materials directly may decrease under the bill.

Administrative costs would be minimal and absorbed by the department.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

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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, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$-7,900,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-7,900,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$-7,000,000
NET CHANGE IN REVENUE		\$-7,900,000	\$-600,000
Agency/Prepared By		Authorized Signature	Date
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