

Fiscal Estimate - 2005 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-3141/1	Introduction Number AB-600
Subject	
Sales and use tax exemption for motor vehicles that use gasoline and ethanol mixtures as fuel	
Fiscal Effect	
State:	
<input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate	
<input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations	<input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues
<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 <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input checked="" type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory
5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <u>Stadium districts</u> <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts	
Fund Sources Affected	
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	
Affected Ch. 20 Appropriations	
Agency/Prepared By	Authorized Signature
DOR/ Blair Kruger (608) 266-1310	Paul Ziegler (608) 266-5773
Date	
9/6/2005	

Fiscal Estimate Narratives
DOR 9/6/2005

LRB Number	05-3141/1	Introduction Number	AB-600	Estimate Type	Original
Subject					
Sales and use tax exemption for motor vehicles that use gasoline and ethanol mixtures as fuel					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, sales of motor vehicles are generally subject to sales and use tax.

Under the bill, the sale of a motor vehicle that is capable of using both gasoline and a mixture consisting of gasoline and at least 85% ethanol (E85) as fuel would be exempt from sales taxes. The amount of taxes that may be claimed as an exemption may not exceed \$1,000 on the purchase of any single motor vehicle. The exemption would take effect on the first day of the second month beginning after publication of the bill and would end 5 years after the effective date.

According to the Department of Administration, there are about 88,000 privately owned flexible fuel vehicles (FFVs -- vehicles capable of using either E85 or conventional gasoline) currently registered in Wisconsin. Model years of the vehicles range from 1996 through 2005.

On average, 12,346 FFVs of each model year were sold from 2001 through 2004, and the estimated average price of a 2005 FFV is \$27,365. Since the exemption is limited to \$1,000, the exemption would apply only to the first \$20,000 of the price of the FFV. Assuming 12,346 new FFVs are sold, each with a \$20,000 exemption, estimated exempt sales of new FFVs would be \$247 million ($\$20,000 \times 12,346$).

Data on sales of used FFVs are not available. However, the number of used vehicles sold in general exceeds the number of new vehicles sold by at least 50%. In addition, the price of a used vehicle is typically about 30% of the price a new vehicle. Assuming the number of used FFVs sold is 50% greater than the number of new vehicles sold, and the price is 30% of that of a new vehicle, estimated exempt sales of used FFVs are about \$152 million ($\$8,210 \times 18,489$). Thus, total sales of FFVs are estimated at \$399 million per year.

According to the federal Energy Information Administration, the number of FFVs sold nationally has been increasing at over 20% per year. Since FFVs may not start as well in cold climates as gasoline-fueled cars, sales of FFVs in Wisconsin are assumed to increase at a lower rate of 15% annually. Also, since FFVs may run on gasoline, some purchasers may not be aware of the sales tax exemption under the bill. Therefore, a compliance rate of 99% is assumed. Under the foregoing assumptions, if the bill took effect July 1, 2005, state sales and use taxes would decrease by \$24 million in FY06 and \$28 million in FY07 under the bill. The actual first year effect would depend on the date the bill took effect.

The \$1,000 cap on the exemption implies that the FFVs selling for up to \$200,000 would be exempt from county and football stadium taxes and FFVs selling for up to \$1,000,000 would be exempt from baseball park taxes. Therefore, it is assumed that the cap does not affect county, football or baseball taxes -- the entire purchase price would be exempt from these local sales taxes under the bill. In 2004, distributions of county and stadium sales taxes were 7.75% of state sales taxes and it is further assumed this percentage does not change. Under these assumptions, county and stadium taxes are estimated to decrease \$2.3 million in FY06 and \$2.7 million in FY07 under the bill.

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

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-3141/1		Introduction Number AB-600	
Subject			
Sales and use tax exemption for motor vehicles that use gasoline and ethanol mixtures as fuel			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
State sales and use taxes: -\$24 million in FY06 and -\$28 million in FY07. County and stadium sales and use taxes: -\$2.3 million in FY06 and -\$2.7 million in FY07.			
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	\$	\$-24,000,000	
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$	\$-24,000,000	
NET ANNUALIZED FISCAL IMPACT			
	State	Local	
NET CHANGE IN COSTS	\$	\$	
NET CHANGE IN REVENUE	\$-24,000,000	\$-2,300,000	
Agency/Prepared By		Authorized Signature	Date

DOR/ Blair Kruger (608) 266-1310

Paul Ziegler (608) 266-5773

9/6/2005