

Fiscal Estimate Narratives

DOR 9/6/2005

LRB Number 05-3555/1	Introduction Number AB-646	Estimate Type Original
Subject		
Tax credit for the sales and use tax paid on the purchase of tangible personal property used in farming		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, most of the inputs used in the business of farming are specifically exempt from sales and use tax. This bill creates a nonrefundable income and franchise tax credit for the amount of sales and use taxes paid on the purchase of tangible personal property used in the business of farming, not including, generally, the purchase of motor vehicles for highway use or tangible personal property that is attached to, fastened to, connected to, or built into real property. Unusual credits may be carried forward for up to 15 years.

According to the US Department of Agriculture Census of Agriculture, Wisconsin farmers spent about \$553.1 million and \$519.6 million on miscellaneous farm expenses in 1997 and 2002, respectively. This 6% decrease in expenditures over 5 years appears to be due to the loss of farms in the state. Since losses of farms may continue to offset increases in miscellaneous farm expenses, at least to some degree, miscellaneous farm expenditures are assumed to remain constant.

Based on cost studies by the Center for Dairy Profitability, University of Wisconsin-Madison, it is assumed that 15% of miscellaneous supplies or \$77.9 million are expenses that are currently taxable that would be eligible for the credit under the bill. Assuming a 95% compliance rate, an estimated \$3.7 million ($\$77.9 \text{ million} \times 95\% \text{ compliance} \times 5\% \text{ sales tax}$) in sales taxes paid per year would be eligible for the credit.

Based on Department data, about 75% of all credits claimed in a tax year are actually used. Therefore, the potential revenue loss associated with this bill could be up to \$2.8 million ($\$3.7 \text{ million} \times .75$), assuming all those that are eligible claim the credit.

The Department will incur one-time administrative costs of \$21,600 for 400 hours of programming for changes to the income tax forms. All other costs will be absorbed by the Department.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
\$21,600 for 400 hours of programming for changes to the income tax forms.			
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	\$	\$-2,800,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$-2,800,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$-2,800,000	\$
Agency/Prepared By		Authorized Signature	Date
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