Fiscal Estimate - 2009 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **09-3351/4**	Introduction Number **AB-0965**

Description
An income and franchise tax credit for the sales tax paid on certain products

Fiscal Effect

State:
- ☐ No State Fiscal Effect
- ☐ Indeterminate
  - ☐ Increase Existing Appropriations
  - ☐ Decrease Existing Appropriations
  - ☐ Create New Appropriations
  - ☐ Increase Existing Revenues
  - ☒ Decrease Existing Revenues
  - ☒ Increase Costs - May be possible to absorb within agency's budget ☒ Yes ☐ No
  - ☐ Decrease Costs

Local:
- ☐ No Local Government Costs
- ☐ Indeterminate
  1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
  2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
  3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
  4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
  5. Types of Local Government Units Affected
     ☐ Towns ☐ Village ☐ Cities
     ☐ Counties ☐ Others
     ☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 5/4/2010

LRB Number **09-3351/4**	Introduction Number **AB-0965**	Estimate Type **Original**
Description An income and franchise tax credit for the sales tax paid on certain products		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, Wisconsin imposes a sales or use tax on most items of tangible personal property, unless an exemption applies. In general, no credit is available against income taxes otherwise due for the amount of the sales tax paid.

This bill creates a nonrefundable income and franchise tax credit for state sales and use tax paid on motorcycles, all-terrain vehicles, personal watercraft, generators, motorized lawn or garden equipment, snowmobiles, motorboats, and inboard or outboard boat motors. Unused credits may be carried-forward for up to 15 years. The maximum amount of the credit is $1,500 for each single purchase. The credit is available for new items that are purchased within 12 months after the effective date of the bill. The bill is effective the day after publication.

Local sales taxes (county and/or stadium district sales taxes) are not eligible for the credit.

Select vehicles and recreational equipment

According to the 2002 Census of Retail Trade, sales by motorcycle, boat, and other motor vehicle dealers in Wisconsin (including ATV, personal watercraft, snowmobile, aircraft, and utility trailer dealers but excluding auto, RV, and light truck dealers) were $1.00 billion in 2002. Assuming that Wisconsin sales by these dealers grew by the U.S. average during the 2002 to 2007 period (41.4%), an estimated $1.42 billion of sales by such dealers occurred in Wisconsin in 2007.

According to estimates from the Annual Retail Trade Survey, national sales of motorcycles, all-terrain vehicles, personal watercraft, snowmobiles, motorboats, and inboard or outboard boat motors declined by 20.9% in 2008. Assuming that Wisconsin's sales follow the national pattern, it is estimated that 2008 sales in Wisconsin for the dealerships above were $1.12 billion in 2008 ($1.42 billion x (1-20.9%)).

Assuming that 30% of these sales relate to replacement parts, service, or sales by dealerships included in the figures above, but not impacted by the bill (such as aircraft and utility trailer dealers), is it estimated that $783.9 million of sales by these dealers would pertain to the bill in 2008 ($1.12 billion x 70%).

According to the U.S. Census Bureau, sales by used car dealerships were approximately 10% of automobile sales in 2007. Assuming that 10% of the sales of items included in the bill are used, which are not eligible for the credit, it is estimated that $705.5 million of dealer sales would pertain to the bill in 2008 (783.9 x 90%).

The state sales tax on this amount that would become eligible for the credit under the bill is estimated at $35.3 million ($705.5 million x 5%).

While estimates from the Annual Retail Trade Survey suggest that sales of these products fell by an additional 14.0% in 2009 (based on partial year data), it is assumed that for the 12 month period for which this bill is effective, sales will rebound to the 2008 amount estimated above.

Lawnmowers

Based on the number of claimants for the state lottery and gaming credit (which may be claimed by individuals for their primary residence), it is estimated that there are approximately 1.5 million homeowner properties in the state. Assuming that 1/12th of these households purchase a lawnmower in any given year at an average cost of $500, state sales tax payments of $3.1 million (1.5 million x (1/12) x $500 x 5%) would be eligible for the lawnmower portion of the bill. Lawnmower purchases by businesses would increase this estimate by an unknown amount.

Generators

Assuming that generators are purchased by 1% of the homeowners in the state on an annual basis at an average cost of $1000, state sales tax payments of $0.8 million (1.5 million x 1% x $1000 x 5%) would become eligible to be claimed under the credit in the bill. Generator purchases by businesses would increase this estimate by an unknown amount.

Total

The combined state sales taxes that are expected to become eligible for the income tax credit under the bill are expected to be $39.2 million ($35.3 million + $3.1 million + $0.8 million). Since the credit is non-refundable and unused credits may be carried-forward for 15 years, the reduction in income tax revenue created by the bill may be spread over several years. Assuming the bill is first effective January 1, 2011, however, the bill would primarily impact tax year 2011 filings and thereby reduce state FY12 tax collections.

While the bill caps the amount of sales tax eligible for the credit on each single purchase at $1,500, this cap would not be binding except where an individual item is sold for more than $30,000 ($1,500/5%). While information is not available as to what share of the items eligible for credit under the bill would be sold in excess of $30,000, no reduction to the revenue loss estimated above has been made for this provision.

DOR administrative expenses under the bill are expected to be absorbed within existing budget authority.

Long-Range Fiscal Implications

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2009 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):

One-time $39.2 million reduction in income tax collections.

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, ets.)

	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$One-Time Reduction	$

Agency/Prepared By	**Authorized Signature**	**Date**
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