Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2013 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **13-3490/2**	Introduction Number **SB-490**

Description
Sales tax bad debt return adjustments for private label credit card bad debt

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 Stadium, Expo, Premier Resort
☐ 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 1/15/2014

LRB Number **13-3490/2**	Introduction Number **SB-490**	Estimate Type **Original**
Description Sales tax bad debt return adjustments for private label credit card bad debt		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, sellers may claim a sales tax deduction for the amount of bad debt that the seller writes off as uncollectible and that is eligible to be deducted as a bad debt for federal income tax purposes. Only the seller (retailer) of the taxable products is eligible for the deduction.

Under the bill, a third-party lender who extends credit through a private label credit, dual purpose credit card, or dealer credit program may enter into an agreement with a seller so that the seller, the lender, or the lender's affiliate may claim a bad debt sales tax deduction. Private label credit cards are branded for a specific retailer and cannot be used as general purpose credit cards. Dual purpose credit cards are branded for a specific seller like a private label card, but may be used as a general purpose credit card. Dealer credit programs include credit arrangements for specific purchases, except items for which a title is required such as motor vehicles, aircraft, and motor homes.

The amount of the deduction or refund would be determined by one of the following three methodologies:

1) An apportionment method that estimates the amount of sales or use tax included in the bad debt to which the deduction or refund applies based on the seller's in-state and out-of-state sales, the seller's taxable and nontaxable sales, and the amount of tax the seller remitted to the state.

2) A specified percentage of the accounts receivable giving rise to the deduction or based on a sample of the seller's or lender's records in accordance with a methodology agreed on by the department and the seller or lender.

3) A direct method approved by the department.

Based on sales and use tax return information, taxable sales attributable to hotels and retailers (sellers that offer private label cards, dual purpose cards, or dealer credit programs) were $32.06 billion in FY2013. Based on industry information, it is assumed that private label, dual purpose, or dealer credit programs provide payment for 7.5% of sellers' taxable sales. Under this assumption, FY2013 taxable transactions subject to the bill totaled $2.40 billion. Based on Fitch Rating's Retail Credit Card Charge-off Index, the current charge-off rate for retailer credit is 6.65%. At the current charge-off rate, state sales and use tax collections would decrease $8.0 million on an annual basis.

Under current law, certain local taxes are linked to the state sales and use tax statutes. Given these links and the use of third party credit services for particular types of businesses (hotels and retailers), the county sales tax, stadium sales taxes, premier resort area taxes, and exposition district room taxes would be impacted by the bill.

County and stadium district sales tax collections were 8.2% of state sales tax collections in FY13. Under the bill, county sales tax collections are expected to decrease by $600,000. Premier resort area tax collections were approximately $6.3 million in 2013. Applying the methodology used to determine the state fiscal effect to premier resort area taxes yields a tax decrease of $30,000. Exposition district room taxes would decrease by approximately $80,000. Total local taxes are expected to decrease by $710,000.

The bill would first apply to taxable years beginning on January 1, 2014.

Long-Range Fiscal Implications

Wisconsin Department of Administration
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Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

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Description
Sales tax bad debt return adjustments for private label credit card bad debt

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, ets.)

	Increased Rev	Decreased Rev
GPR Taxes	$	$-8,000,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$-8,000,000**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$-8,000,000	-$710,000

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