

Fiscal Estimate Narratives

DOR 2/27/2013

LRB Number	13-1317/2	Introduction Number	AB-0108	Estimate Type	Original
Description Sales tax holidays in August and in November					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, sales and use taxes are imposed on the sale of tangible personal property, digital goods, and certain services. In FY2012, sales and use tax collections totaled \$4.289 billion.

The bill provides two annual temporary sales and use tax exemptions for specified items. Under the bill, the sale of clothing items sold for \$75 or less, computers sold for \$2,000 or less, school computer supplies sold for \$250 or less, school instructional materials sold for \$300 or less, and school supplies sold for \$75 or less purchased for a consumer's personal use would be exempt during the two-day period beginning with the first Saturday in August and ending on the following Sunday. The price limits apply to the sales price of a single item. Under the bill, the sale of Energy Star qualified products purchased for a consumer's personal use would be exempt from sales and use tax during the two-day period beginning on the first Saturday in November and ending on the following Sunday.

Under the bill, the sales tax holidays would not occur if the Department of Revenue determines, no later than May 1, that the state's financial situation would make the implementation of the temporary exemptions imprudent.

August Sales Tax Holiday:

According to the National Retail Federation, national expenditures for school supplies reached an estimated \$4.2 billion in 2012. Wisconsin's share of US personal income is approximately 1.75%. Assuming Wisconsin's share of school supply purchases is the same as the state's share of personal income and that 35% school supply purchases occur in during the exemption period, the temporary exemption for school supplies would decrease state sales/use tax collections by \$1.3 million.

Based on information from the 2007 Economic Census and Wisconsin sales tax returns, 2012 clothing sales reached an estimate \$5.4 billion. Assuming that the sales tax holiday would draw two average weeks of sales activity and assuming that 80% of products sold would be under the exemption threshold (\$100), the temporary exemption for clothing would decrease state sales/use tax collections by approximately \$8.3 million.

According to the National Association of College Stores, higher education full time equivalent (FTE) students spent approximately \$449 on textbooks at college book stores and affiliated web sites during the 2010-11 academic year. Based on information from the Wisconsin Blue Book and Wisconsin Technical College System, Fall 2010 post-secondary enrollment was approximately 328,000. Assuming that, on average, students spend \$225 on instructional materials and textbooks (one-half of the estimated yearly total) and that 20% of the sales occur during the sales tax holiday, the temporary exemption for school instructions materials is expected to decrease state sales/use tax collections by approximately \$700,000.

Based on information from Global Insight, consumer expenditures on computers and computer peripherals reached \$53.6 billion in 2012. Assuming that Wisconsin's share of computers and computer school supplies is the same as the state's share of US personal income (1.75%), 90% of sales are under the price threshold, and that the sales tax holiday would draw two average weeks of sales activity, the temporary exemptions for computers and computer school supplies is expected to decrease state sales/use tax collections by approximately \$1.6 million.

In sum, the August sales tax holiday is estimated to decrease state sales/use tax collections by \$11.9 million on an annual basis.

November Sales Tax Holiday:

Only a partial estimate of the fiscal impact of the November sales tax holiday may be estimated as data is

not available for some items that would be temporarily exempt under the bill, such as roofing materials and insulation. Additionally, some share of products that would be considered real property improvements (water heaters, central air conditioners, and furnaces) could be purchased directly by consumers during the exemption period and then installed by a third-party.

Based on US Census information and the Energy Star program reports on the market share of Energy Star certified products, such as room air conditioners, dehumidifiers, refrigerators, clothes washers, televisions, computers, computer peripherals, compact fluorescent lighting, doors, windows, and skylights and assuming that the two day exemption created by the bill draws two average weeks of sales activity, the November sales tax holiday is estimated to decrease state sales/use tax collections by \$2.6 million annually.

Combined Impact:

While certain taxable expenditures cannot be shifted, consumers looking to make purchases of large appliances, clothing, and computers may shift their purchases into the sales tax holiday periods to take advantage of the exemptions. Under the bill, state sales tax revenues are expected to decrease \$14.5 million (\$11.9 million + \$2.6 million), on an annual basis under the combination of both sales tax holidays.

County and stadium taxes were 8.2% of state sales taxes in FY12. Assuming this percentage does not change, county and stadium sales and use taxes would decrease by \$1.2 million annually.

The estimates above may be understated since (as indicated above) no amount is included for insulation, roofing materials, water heaters, central air conditioners, and furnaces that may qualify for the Energy Star product exemption under the bill. The estimate may be overstated if consumer behavior is impacted to a smaller degree than assumed.

The bill will require the department to annually incur additional customer service costs. It is anticipated that the department can absorb these costs within existing resources.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Sales tax holidays in August and in November			
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	\$		\$-14,500,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$		\$-14,500,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-14,500,000	-\$1,200,000
Agency/Prepared By		Authorized Signature	
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		Date	
		2/27/2013	