

Fiscal Estimate - 2015 Session

Original Updated Corrected Supplemental

LRB Number **15-4464/1** Introduction Number **SB-624**

Description
 Assessing certain items as real property for property tax purposes

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 3. Increase Revenue
 - Permissive Mandatory Permissive Mandatory
 - 2. Decrease Costs 4. Decrease Revenue
 - Permissive Mandatory Permissive Mandatory
5. Types of Local Government Units Affected
- Towns Village Cities
 - Counties Others Baseball District
 - School Districts WTCS Districts

Fund Sources Affected **Affected Ch. 20 Appropriations**

GPR FED PRO PRS SEG SEGS

Agency/Prepared By	Authorized Signature	Date
DOR/ Travis Arthur (608) 266-8565	Robert Schmidt (608) 266-5773	1/26/2016

Fiscal Estimate Narratives

DOR 1/26/2016

LRB Number	15-4464/1	Introduction Number	SB-624	Estimate Type	Original
Description Assessing certain items as real property for property tax purposes					

Assumptions Used in Arriving at Fiscal Estimate

PROPERTY TAX ASSESSMENTS

This bill provides that all of the following items are considered real property for purposes of assessing property taxes: 1) cooking ranges; 2) furnaces; 3) water heaters used for a special purpose; 4) communications, radio station, and television station towers; 5) pinspotters; 6) car wash equipment; 7) indoor theater seats; 8) aboveground tanks; 9) surface mounted lifts used to provide automotive services; 10) alarm systems; and 11) surveillance systems.

Under current law, the types of property mentioned above are taxed as personal property, and the bill reclassifies the types of property as real property. This provision does not have a fiscal effect on property taxes. Any administrative costs associated with updating the Wisconsin Property Assessment Manual and other materials to reflect the legislative change can be absorbed within the current budgetary resources.

SALES TAX IMPLICATIONS for REAL PROPERTY IMPROVEMENTS

The modification of the definition of real property affects the sales tax treatment of the items listed above. Current law imposes sales tax on the final sales price, including markup, labor, and installation charges, of personal property. Real property improvements are not subject to sales tax, but a contractor's purchase of items utilized in real property improvement are subject to tax. The bill would effectively reduce the tax base from the final sales price down to the purchase price paid by the contractor, who consumes the item in providing real property improvement services.

The overall reduction in sales/use tax collections may be significant. Contractors reported taxable sales of \$1.41 billion in FY2015. These sales generated \$70.5 million of state sales tax revenue. Assuming the bill reduces these taxable sales by 5%, sales tax collections would decrease by \$3.5 million. The department does not have sufficient information to determine the potential sales/use tax reduction for each of the items listed in the bill.

For illustrative purposes, based on sales tax returns and US Census data for security systems services (alarms and surveillance systems), the department estimates that imposing sales tax on the contractor's purchase price of equipment rather than the sales price would reduce sales tax revenue by \$775,000. Similarly, reducing the tax basis for indoor movie theater seats would reduce state sales tax collections by an estimated \$460,000. The overall fiscal effect would be larger to the extent the bill would reduce the price subject to tax for each of the items.

If, however, the bill is amended to exclude Chapter 77 from the Chapter 70 definition of personal property, the bill will have no fiscal effect with respect to sales tax revenue.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2015 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 15-4464/1	Introduction Number SB-624	
Description Assessing certain items as real property for property tax purposes		
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, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$	\$See text
Agency/Prepared By		
Authorized Signature		
Date		
DOR/ Travis Arthur (608) 266-8565	Robert Schmidt (608) 266-5773	1/26/2016