

Fiscal Estimate Narratives

DOR 5/30/2017

LRB Number	17-3411/1	Introduction Number	AB-0340	Estimate Type	Original
Description a sales and use tax exemption for products sold in connection with real property construction activities					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, there is a sales and use tax exemption for property, items, and services sold by a contractor as part of a lump sum contract for real property construction activities if the total sales price attributable to the taxable products is less than 10 percent of the total contract price.

The bill expands the exemption for lump sum contracts to apply to all construction contracts involving real property construction activities if the total sales price of the taxable products is less than 10 percent of the total contract price. The bill provides that if the prime contractor qualifies for the exemption, the exemption also applies to all subcontracts entered into with respect to the real property construction activities.

The bill reduces the price subject to tax on eligible products from the subcontractor's sales price (including installation, labor charges, and markup) to the subcontractor's purchase price.

Based on information from the 2012 Economic Census and Global Insight, the department estimates retail trade by specialty contractors in Wisconsin to be \$61.6 million for FY17. Assuming a 50% gross margin on products (inclusive of installation and labor charges), the department estimates sales tax revenue would decrease by about \$1.5 million ($\$61.6 \text{ million} * 50\% * 5\%$). The fiscal effect may be lower to the extent specialty contractors serve as prime contractors on construction projects and qualify for the current law exemption.

Local (county and baseball district) sales taxes were 7.7% of state sales tax revenues in FY16. Assuming this percentage does not change, local sales taxes will decrease by about \$119,000 ($\$1.5 \text{ million} * 7.7\%$) per year.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2017 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 17-3411/1	Introduction Number AB-0340	
Description a sales and use tax exemption for products sold in connection with real property construction activities		
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	\$	\$-1,500,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$-1,500,000
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$-1,500,000	-\$119,000
Agency/Prepared By		
Authorized Signature		Date
DOR/ Travis Arthur (608) 266-8565		Robert Schmidt (608) 266-5773
		5/30/2017