



## Fiscal Estimate Narratives

DOR 8/17/2009

|  |                  |                     |                |               |                 |
|--|------------------|---------------------|----------------|---------------|-----------------|
| LRB Number   | <b>09-1922/1</b> | Introduction Number | <b>AB-0339</b> | Estimate Type | <b>Original</b> |
| <b>Description</b><br>A sales and use tax exemption for building materials used to construct or remodel single-family residences |                  |                     |                |               |                 |

### Assumptions Used in Arriving at Fiscal Estimate

The bill provides a sales and use tax exemption, for a 12 month period, for lumber, siding, cement, windows, doors, and roofing materials used to construct or remodel single-family residences. This tax exemption applies to residences which are placed in service after the effective date of the bill or remodeling which is completed after the effective date. This bill takes effect on the first day of the 2nd month beginning after publication.

#### New Construction

Based on projections of Wisconsin housing permits, U.S. Census data on average construction costs, and assuming, based on industry data, that 50% of construction costs can be allocated to materials exempt from sales tax under the bill, the value of building materials used in new single-family construction in Wisconsin is projected to be \$978.6 million in 2010. Assuming the bill's temporary sales tax exemption is effective for the entirety of 2010, the state sales tax revenue loss from exempting materials used in new single-family construction would be \$48.9 million.

County and stadium sales tax collections were 7.9% of state sales tax collections in FY08. Assuming this percentage remains unchanged, county and stadium sales tax collections would decrease by an estimated \$3.9 million in 2010 for this portion of the bill.

#### Remodeling

Based on U.S. Census data on the average Midwest regional cost of materials used to remodel single-family dwellings and the estimated number of single-family dwellings in Wisconsin, the value of remodeling materials expected to be purchased for single-family dwellings in Wisconsin is estimated to be \$376.3 million in 2010. Assuming, as above, that the bill will be effective for the entirety of 2010, an exemption for materials used in remodeling would reduce state sales tax revenues by \$18.8 million. The corresponding county and stadium sales tax loss for this component of the bill would be \$1.5 million (7.9% of \$18.8 million).

#### Total

The combined fiscal effect of a sales tax exemption for materials used in both new construction and remodeling of single-family homes is estimated as a one-time state revenue loss of \$67.7 million and a one-time county and stadium revenue loss of \$5.4 million. This impact would be expected to grow significantly, however, if the bill were become effective for a later period when the state's economy, and home building and remodeling expenditures, are expected to be higher. If, for example, the bill becomes effective for 2011, rather than 2010, the state revenue loss would be expected to grow from \$67.7 million to over \$90 million.

The Department of Revenue's administrative costs under the bill can be absorbed within existing expenditure authority.

### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

|   |   |  |                 |
|---|---|--|-----------------|
| <b>LRB Number</b> 09-1922/1   |   | <b>Introduction Number</b> AB-0339             |                 |
| <b>Description</b><br>A sales and use tax exemption for building materials used to construct or remodel single-family residences  |   |  |                 |
| <b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b><br><br>One-time state revenue loss of \$67.7 million and a one-time county and stadium revenue loss of \$5.4 million. |   |  |                 |
| <b>II. Annualized Costs:</b>  |   | <b>Annualized Fiscal Impact on funds from:</b> |                 |
|   |   | Increased Costs                                | Decreased Costs |
| <b>A. State Costs by Category</b>   |   |  |                 |
|   | State Operations - Salaries and Fringes | \$   | \$              |
|   | (FTE Position Changes)                  |  |                 |
|   | State Operations - Other Costs          |  |                 |
|   | Local Assistance                        |  |                 |
|   | Aids to Individuals or Organizations    |  |                 |
|   | <b>TOTAL State Costs by Category</b>    | <b>\$</b>                                      | <b>\$</b>       |
| <b>B. State Costs by Source of Funds</b>  |   |  |                 |
|   | GPR                                     |  |                 |
|   | FED                                     |  |                 |
|   | PRO/PRS                                 |  |                 |
|   | SEG/SEG-S                               |  |                 |
| <b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>  |   |  |                 |
|   |   | Increased Rev                                  | Decreased Rev   |
|   | GPR Taxes                               | \$   | \$              |
|   | GPR Earned                              |  |                 |
|   | FED                                     |  |                 |
|   | PRO/PRS                                 |  |                 |
|   | SEG/SEG-S                               |  |                 |
|   | <b>TOTAL State Revenues</b>             | <b>\$</b>                                      | <b>\$</b>       |
| <b>NET ANNUALIZED FISCAL IMPACT</b>   |   |  |                 |
|   |   | State  | Local           |
|   | NET CHANGE IN COSTS                     | \$   | \$              |
|   | NET CHANGE IN REVENUE                   | \$   | \$              |
| <b>Agency/Prepared By</b>   |   | <b>Authorized Signature</b>                    | <b>Date</b>     |
| DOR/ Jacek Cianciara (608) 266-8133   |   | Paul Ziegler (608) 266-5773                    | 8/17/2009       |