

Fiscal Estimate Narratives

DOR 3/23/2010

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|--|-----------|---------------------|---------|---------------|----------|
| LRB Number | 09-3990/1 | Introduction Number | AB-0712 | Estimate Type | Original |
| Description A sales and use tax exemption for extended-range electric vehicles; a property tax exemption for tangible personal property used to recharge electric vehicles; the motor vehicle emission inspection and maintenance program, extended-range electric vehicle grants; an income and franchise tax credit for research conducted in this state by a corporation; a property and sales and use tax exemption for certain machinery and tangible personal property used to conduct research; granting rule-making authority; and making appropriations | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

This bill includes both tax and vehicle emission provisions. This fiscal note only addresses the tax components of the bill.

SUPER RESEARCH CREDIT

Under current law, for taxable years beginning on or after January 1, 2011, a corporation may claim a "super research and development" income and franchise tax credit equal to the amount of its qualified research expenses in the taxable year for research conducted in this state that exceeds the amount equal to the average amount of the corporation's qualified research expenses in the previous three taxable years multiplied by 1.25. The bill accelerates the initial applicability of the credit from taxable years beginning on or after January 1, 2011 to taxable years beginning on or after July 1, 2010.

As a result of the change in applicability date under the bill, corporations with a taxable year that begins in the period from July 1, 2010 through December 31, 2010 could claim the super research credit for tax year 2010. The annual fiscal estimate for the super research credit when it was created in 2009 Act 28 was \$5 million. Based on aggregate data for tax year 2007 (the most current available), approximately 20% of the regular research expense and facilities credits that were used to offset taxes were claimed by corporations that have a taxable year that starts in the period from July 1 through December 31. Assuming the same percentage of super research credit used to offset taxes will be claimed by corporations who have taxable years that start in the period from July 1, 2010 through December 31, 2010, the fiscal effect of allowing the credit to be claimed for tax years starting on or after July 1, 2010 would be an estimated \$1 million in FY2011 (\$5 million x 20%).

SALES AND USE TAX EXEMPTION FOR SILVICULTURE RESEARCH

The bill expands the exemption for machinery and equipment and consumables used exclusively and directly in qualified research to include those sold to persons engaged primarily in silviculture in Wisconsin. Under current law, this exemption is only available to those persons engaged primarily in manufacturing or biotechnology and is effective January 1, 2012.

While the bill includes silviculture into the qualified research exemption statute prior to the January 1, 2012 effective date for this forthcoming exemption, it does not modify the effective date of the qualified research exemption. Consequently, this expansion of the qualified research exemption will have no fiscal impact prior to 2012.

The current law exemption is expected to reduce sales tax collections by \$13 million annually beginning January 1, 2012. The bill's extension to include silviculture is expected to increase this revenue loss by approximately \$700,000 on an annual basis (assuming that the inclusion of silviculture research increases qualifying exempt sales for research by 5%).

County and stadium district sales taxes were approximately 8.0% of state sales tax collections in FY09. Assuming this relationship remains stable, this provision of the bill will reduce local sales tax collections by approximately \$56,000 annually beginning in 2012.

SALES & USE TAX EXEMPTION FOR CERTAIN ELECTRIC VEHICLES

Under current law, sales of electric vehicles are subject to sales or use tax. This bill provides a sales tax exemption for sales of certain electric and hybrid vehicles until December 31, 2020. It also exempts sales of batteries for such vehicles until December 31, 2025. After these temporary exemptions expire, the sales and use taxes on the types of vehicles, accessories, and parts that were previously exempt will be deposited into the transportation fund.

The temporary sales tax exemptions would apply to extended-range electric vehicles, defined to be vehicles with an electric motor and energy storage device capable of propelling the vehicle, without other methods of propulsion, for at least 30 miles on a single energy charge. The exemption would include accessories and parts and apply to both new and used qualifying vehicles. Since the bill allows these vehicles to also include other methods of propulsion (including internal combustion engines capable of operating on gasoline, diesel fuel, or alternative fuels), it is assumed that both hybrid and electric cars would qualify for these temporary exemptions.

According to the Wisconsin DOT, in December 2008, there were 18,145 vehicles registered as hybrid motor vehicles (HMTVs) and in 2009, an additional 3,793 HMTVs were registered to bring the 2009 total to 21,938 HMTV vehicles.

According to the Wisconsin DOT, in 2008 there were 27 vehicles registered as electric vehicles. During 2009, the number of registered electric vehicles increased by 5 to bring the total to 32.

Assuming that the sale of HMTV and electric vehicles will grow at the same rate as overall growth in Wisconsin's vehicle sales, it is estimated that by the end of 2010 there will be 26,571 HMTVs in Wisconsin, an increase of 4,633 over 2009, and by the end of 2011 there will be an additional 5,538 vehicles, for a total of 32,110 HMTVs. Moreover, it is assumed that the number of electric vehicles in Wisconsin will increase by 6 to 38 in 2010 and by an additional 7 vehicles to a total of 45 electric vehicles in 2011. Furthermore, it is assumed that all of these additional hybrid and electric vehicles will be capable of propelling the vehicle for at least 30 miles on a single charge. In addition, it is assumed that 20% of hybrids and electric vehicles will be sold to governments, non-profits, and other exempt buyers.

The sale price of HMTVs generally ranges between \$23,000 and \$35,000 for a new car. An average market price for electric cars is not available as these vehicles have not yet been sold in quantities allowing for the determination of an average price. A survey of industry prices shows that electric vehicle prices could range, however, from \$20,000 to over \$100,000. The anticipated price of the upcoming Chevy Volt is expected to be about \$40,000.

Since the exemption covers both new and used vehicles, it is assumed that the average price of an electric vehicle or hybrid that will become exempt under the bill will be \$25,000.

Based on these price and quantity assumptions it is estimated that the receipts from Wisconsin sales of electric and hybrid vehicles (net of purchases by governments or exempt entities) would total \$92.7 million in 2010 and \$110.9 million in 2011, with a corresponding state sales tax loss of \$4.6 million and \$5.5 million, respectively. The 2011 revenue loss of \$5.5 million is calculated as follows: (5538 new hybrids + 7 new electric vehicles) x \$25,000 average price X 80% to exclude exempt sales X 5% state sales tax rate.

County and stadium sales tax collections were about 8.0% of state sales tax collections in FY09. Assuming this percentage remains unchanged, county and stadium sales tax collections would decrease by estimated \$370,000 in 2010 and approximately \$450,000 in 2011.

The exemption is effective the 1st day of the 2nd month beginning after publication. Assuming the effective date is July 1, 2010, the FY2011 revenue loss from these temporary exemptions would be the average of the calendar year figures above. The state revenue loss for FY2011 is thus estimated at \$5.1 million and the local revenue loss is estimated at \$410,000.

As Wisconsin's economy continues to recover from the recession, the bill's impact on state tax revenues is anticipated to grow.

PROPERTY TAXES

The bill creates the following property tax exemptions: (1) an exemption from both real estate taxes and personal property taxes for machinery and equipment used exclusively and directly in qualified research by persons who are primarily in manufacturing, silviculture, or biotechnology, and (2) a personal property tax exemption for charging stations, defined as property used exclusively to recharge electric vehicles licensed for highway use or for use as neighborhood electric vehicles.

The Department of Revenue does not have information which would permit a reasonable estimate of the amount of existing property that would be exempt from property taxation under the bill. Based on National Science Foundation data and several assumptions, however, the exemption for machinery and equipment used exclusively and directly in qualified research in manufacturing, silviculture, or biotechnology may shift over \$10 million of property taxes from the owners of this property to the owners all remaining taxable property. Since few charging stations for electric vehicles currently exist, it is expected that this provision of the bill would have, in the short run, only a minor impact on the distribution of the property tax burden. Over time, however, this shift could grow.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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| I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): One-time \$1.0 million state general fund revenue loss due to the acceleration of the applicability date of the Super Research Credit. | | |
| 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 | \$ | \$-5,800,000 |
| GPR Earned | | |
| FED | | |
| PRO/PRS | | |
| SEG/SEG-S | | |
| TOTAL State Revenues | \$ | \$-5,800,000 |
| NET ANNUALIZED FISCAL IMPACT | | |
| | State | Local |
| NET CHANGE IN COSTS | \$ | \$shift property tax burden |
| NET CHANGE IN REVENUE | \$-5,800,000 | -\$466,000 |
| Agency/Prepared By | Authorized Signature | Date |

