

Fiscal Estimate - 2013 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 13-0132/1		Introduction Number AB-0076	
Description Sales and use tax exemption for building materials that become a part of a facility for a local unit of government or nonprofit organization			
Fiscal Effect			
State:			
<input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Create New Appropriations			
			<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs
Local:			
<input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate			
1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
2. <input checked="" type="checkbox"/> Decrease Costs <input checked="" type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		4. <input checked="" type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory	
5. Types of Local Government Units Affected			
<input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <input type="checkbox"/> stadium districts <input checked="" type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts			
Fund Sources Affected		Affected Ch. 20 Appropriations	
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS			
Agency/Prepared By		Authorized Signature	Date
DOR/ Robert Schmidt (608) 267-9892		Paul Ziegler (608) 266-5773	4/1/2013

Fiscal Estimate Narratives

DOR 4/1/2013

LRB Number	13-0132/1	Introduction Number	AB-0076	Estimate Type	Original
Description Sales and use tax exemption for building materials that become a part of a facility for a local unit of government or nonprofit organization					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, school districts, municipalities, counties and nonprofit organizations do not pay sales or use tax on their purchases of tangible personal property. However, construction contractors pay sales or use tax on purchases of tangible personal property used in real property construction regardless of whether the construction is for an entity that is exempt from sales and use tax.

Under the bill, tangible personal property that becomes a component of a facility owned by a school district, municipality, county or nonprofit organization would be exempt from sales and use taxes when purchased by a construction contractor pursuant to a contract with a school district, municipality, county, or nonprofit organization. A facility under the bill would include any building, shelter, parking lot, parking garage, athletic field, athletic park, storm sewer, or water supply system but would not include a highway, street, or road.

For this fiscal note, it is assumed that 80% of the value of the building materials used in construction activities for all affected local governments and all affected nonprofit entities are currently exempt. This assumption reflects that most major construction projects, especially those of larger governmental and nonprofit entities, are of sufficient magnitude and undertaken with sufficient lead time to induce government or nonprofit entities to use their current law authority to purchase building materials directly to reduce costs. Given the wide scope and variety of construction projects; including many smaller and/or unique projects, projects undertaken under short timelines, and those undertaken by smaller entities; 20% of the value of the building materials for all construction relevant to this bill are assumed to be subject to tax under current law.

County, City, Village, and Town Construction: Based on information from the United States Census Bureau, construction expenditures listed under this exemption for local governments (excluding school districts) in Wisconsin totaled \$918.7 million in 2010. IHS Global Insight currently forecasts that state and local government construction will decrease 10.1% from 2010 to 2013. Assuming Wisconsin local government construction decreases by the same percentage, 2013 construction expenditures for Wisconsin local governments are estimated at \$825.9 million. Based on information from the Economic Census; materials, supplies and components used in construction are estimated at 30.5% of the value of construction. Assuming that 80% of these purchases are made directly by the exempt body, it is estimated that \$50.4 million ($\$825.9 \text{ million} \times 30.5\% \times 20\%$) of construction material purchases by contractors pursuant to contracts with counties, cities, villages, and towns will be taxable in 2013.

School District Construction: Based on information provided by the Department of Public Instruction, school construction expenditures totaled \$158.0 million in 2012. IHS Global Insight forecasts that state and local government construction will decrease 1.4% from 2012 to 2013. Assuming Wisconsin school district construction expenditures decreases at the same rate, 2013 Wisconsin school district construction expenditures are estimated at \$155.7 million. Assuming that 80% of these purchases are made directly by the exempt body and that 30.5% of the construction expenditures are related to materials, it is estimated that \$9.5 million ($\$155.7 \text{ million} \times 30.5\% \times 20\%$) of construction material purchases by contractors pursuant to contracts with school districts will be taxable in 2013.

Nonprofit Construction: Nonprofit organizations affected by the bill would include hospitals, religious organizations, private schools, and a variety of interest groups and associations.

Based on information in DOR's Towns, Village and City Taxes reports and the Tax Exemption Devices reports for the last several years, private real property owned by exempt organizations represents, on average, 4.6% of the value of taxable real estate. According to the Census Bureau, private construction expenditures in Wisconsin totaled \$23.83 billion in 2007. IHS Global Insight currently forecasts that nonresidential construction will decrease approximately 11.2% from 2007 to 2013. Assuming the share of Wisconsin nonprofit construction is reflective of real property owned by exempt organizations versus taxable property, and that nonprofit organization construction will reflect changes in national trends in nonresidential

construction, Wisconsin nonprofit organization construction is estimated to be \$973.4 million (4.6% x \$23.83 billion x 88.8%) in 2013. Assuming that 80% of these purchases are made directly by the exempt body, it is estimated that \$59.4 million ($\$973.4 \text{ million} \times 30.5\% \times 20\%$) of construction material purchases by contractors pursuant to contracts with nonprofit organizations will be taxable in 2013.

Total Expenditures for Construction Materials Affected under the Bill: Total annual expenditures for taxable construction materials for local government, school, and nonprofit construction are an estimated \$119.3 million ($\$50.4 \text{ million} + 9.5 \text{ million} + 59.4 \text{ million}$) in 2013.

Revenue Impact: It is estimated that state sales and use tax collections will decrease under the bill by \$6.0 million ($5\% \times \119.3 million). County and stadium district sales taxes were 8.2% of state sales tax revenues in FY12. Assuming this percentage does not change, county and stadium district sales taxes will decrease by about \$500,000 per year.

Local Government Costs: To the extent that local government construction contracts would not include state, county, and stadium district sales and use taxes under the bill, construction expenditures could decrease by up to \$3.2 million, assuming all tax savings are passed on to the local governments, including school districts. Administrative costs related to materials purchasing and project management of entities that currently purchase materials directly may decrease under the bill.

State administrative costs would be minimal and absorbed by the department.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

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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	\$		\$-6,000,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$		\$-6,000,000
NET ANNUALIZED FISCAL IMPACT			
	<u>State</u>		<u>Local</u>
NET CHANGE IN COSTS	\$		\$see text
NET CHANGE IN REVENUE	\$-6,000,000		-\$500,000
Agency/Prepared By		Authorized Signature	Date
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