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Assembly Bill 383

Assembly Ways and Means Committee
December 19, 2019

Dear Chairman Macco and Committee Members:

Thank you for the opportunity to testify in support of Assembly Bill 383, today. I sincerely appreciate the Chairman's willingness to hold a public hearing on this bill.

I would like to acknowledge the work my co-author Senator Marklein and his staff have put into crafting and moving forward this common sense legislation that will help Wisconsin businesses be more competitive.

This legislation creates a narrow sales tax exemption for tangible personal property that is stored in Wisconsin for 120 days or less, if the property is to be used to fulfill a real property construction activity that occurs solely outside of Wisconsin.

The work would need to take place at a nonprofit organization, a public school district, or a business district where business tax incentives have been granted.

Currently, our state's tax laws put Wisconsin contractors at a significant disadvantage, when bidding on certain types of projects. In Illinois, this can amount to a difference of 5% on a project bid, when competing against contractors based in that state.

Passing this legislation will help Wisconsin based businesses like Epic Construction, Merrill Steel, Precision Drive Control (PDC) and others better compete for contracts in our neighboring states. Ultimately, this will mean more job opportunities for the constituents Senator Marklein and I represent in southwest Wisconsin.

If our state is to grow and be economically competitive, we need to make sure our businesses are competing on a level playing field. Creating this small tax exemption will give them a better chance of getting the work they need to provide our constituents with family supporting jobs.

Thank you for your time and consideration. I'm happy to answer any questions you may have.



HOWARD MARKLEIN

STATE SENATOR • 17TH SENATE DISTRICT

December 19, 2019 Assembly Committee on Ways and Means Testimony on Assembly Bill 383

Thank you Chairman Macco and committee members for hearing Assembly Bill 383 (AB 383), which creates a narrow Temporary Storage Rule in Wisconsin. This Temporary Storage Rule would provide a sales and use tax exemption for construction contractors that do work in tax-free areas in other states. Thank you Rep. Dittrich, Rep. Kulp, and Rep. Ramthun for co-authoring this legislation.

The idea for this legislation was brought to me by one of my constituents who works for a construction contractor located near the state line. His company often does work in Illinois and routinely has its building materials shipped to Wisconsin and stored here temporarily prior to transporting the materials to Illinois for use in a construction project. This is common practice for many companies in Wisconsin located near the state line.

Unfortunately, due to Wisconsin's current tax structure, these temporarily stored materials are assessed Wisconsin sales and use tax. This taxation puts Wisconsin companies at no less than a 5% disadvantage when bidding for projects in tax-free areas in other states compared to companies located in the same state as the project.

AB 383 creates a narrow Temporary Storage Rule for Wisconsin. This legislation will allow construction companies to receive a Wisconsin sales and use tax exemption for tangible personal property that is first shipped to Wisconsin, stored for less than 120 days, and then used in the fulfillment of real property construction in another state at a non-profit organization, public school district, or business district where business tax incentives have been granted, such as Enterprise Zones. This exemption also applies to property that is altered by converting, fabricating, manufacturing, printing, processing, or shaping before its use outside of Wisconsin.

The Department of Revenue (DOR) estimates that the fiscal effect of AB 383 will be about \$917,000 per year, although DOR cautions that this is a rough estimate and the actual impact will most likely be lower. This is close to the estimate that the non-partisan Legislative Fiscal Bureau (LFB) provided during the budget process of about \$650,000 per year.

Illinois and Iowa both have much broader Temporary Storage Rules and this legislation moves Wisconsin toward equal footing with our neighbors. Currently, companies in our neighboring states do not have the same disadvantage when they come to Wisconsin to work in tax-free areas that Wisconsin companies have when they go to Illinois or Iowa to do similar work. AB 383 is a small step toward leveling the playing field for Wisconsin companies.

Assembly Amendment 1 to AB 383 simply delays the effective date of the bill to the first day of the 3rd month beginning after publication.

The Senate Committee on Agriculture, Revenue, and Financial Institutions held a public hearing on SB 351, the companion bill to AB 383, on September 18, 2019. The bill was recommended for passage as amended, 5-4, by the Senate Committee on Agriculture, Revenue, and Financial Institutions on September 25, 2019. The bill received bipartisan support on the Senate floor and passed 24-9 on October 8, 2019.

AB 383 is supported by Associated Builders and Contractors of Wisconsin (ABC), the Wisconsin Association of Property Taxpayers (WPT), Wisconsin Manufacturers and Commerce (WMC), and the Wisconsin Housing Alliance. Thank you again to the committee for hearing this proposal, and your timely action on the bill.

WMC

WISCONSIN MANUFACTURERS & COMMERCE

To: Assembly Committee on Ways and Means
From: Corydon Fish, Wisconsin Manufacturers & Commerce
Date: December 19, 2019
Re: Testimony in Support of Assembly Bill 383

Thank you Chairman Macco and members of the Assembly Committee on Ways and Means for hearing my testimony in support of Assembly Bill 383 (AB 383). This bill supports a vital subsector of Wisconsin's manufacturing economy: prefabricated construction. From homes to NFL stadiums, Wisconsin companies have a national foothold in this industry. However, a provision in Wisconsin's sales-use tax statute puts Wisconsin fabricators at a disadvantage when bidding on certain out-of-state projects – even though all the fabrication work is done in Wisconsin – leading to fewer Wisconsin jobs and less tax revenue for the state. Representative Tranel's and Senator Marklein's bill would help correct this problem.

Wisconsin Manufacturers & Commerce (WMC) is the state chamber of commerce and largest general business association in Wisconsin. We were founded over 100 years ago, and are proud to represent approximately 3,800 member companies of all sizes and from every sector of our economy. Our mission is to make Wisconsin the most competitive state in the nation in which to do business. One way WMC does this is by working to make our tax code more competitive.

AB 383 creates a sales tax exemption for tangible personal property that is temporarily stored in the state (up to 120 days) and is then altered and used in construction activity for certain entities – such as school districts – in another state. This bill is a surgical fix to a market distortion created by our tax code. The legislation would make Wisconsin businesses more competitive by helping fabricators to win more contracts for out-of-state projects.

Winning more projects would create more economic activity from fabricators and other related manufacturers in the state. This economic activity could result in more high-skilled employment opportunities, business expansion, and additional tax revenues that come along with increased business expansion.

If this bill becomes law, Wisconsin would join fourteen other states (including our neighbors Michigan and Minnesota) and Washington D.C. that have a sales tax exemption for fabricators that temporarily store materials for manufacture in a state and then use those materials in construction elsewhere.

Thank you again Chairman Macco and members of the Committee for the opportunity to testify. I encourage the Committee to support AB 383. This legislation will help make Wisconsin businesses better able to compete and make Wisconsin a better place to do business.



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To: Assembly Committee on Ways and Means

From: Fred Schwalbach, President of Merrill Steel

Date: December 19, 2019

Re: Merrill Steel Testimony in Support of Assembly Bill 383

Good morning Chairman Macco and members of the Assembly Committee on Ways and Means. Thank you for taking the time to hear my testimony in support of Assembly Bill 383. This legislation would help fabricators like us be more competitive when bidding on certain out-of-state projects. Becoming more competitive could allow Merrill Steel to grow our footprint in Wisconsin.

Merrill Steel is a national LEADER in structural steel fabrication and industrial platework. Headquartered in Schofield, WI, we staff approximately 300 team members at our Wisconsin location with another 150 employees at our Springfield, MO location. Roger W. Hinner founded the company in 1962, working out of a 5,000 SF facility in Merrill, WI. Today, the company is in its 3rd generation of ownership operating out of a 400,000 SF facility in Schofield, WI. Not only has Merrill Steel worked on many large scale projects in Wisconsin such as the Camp Randall Stadium, Lambeau Field, and the new Wisconsin Valley Science & Technology Park in Pleasant Prairie, we have also worked on many, many national projects such as the Raiders' Las Vegas Stadium, the Kentucky Convention Center, and the Minnesota Vikings' US Bank Stadium. Our mission is to become the leading steel fabricator in the country.

To become the national leading structural steel fabricator, Merrill Steel needs your help to create a more competitive tax environment in Wisconsin. Assembly Bill 383 corrects an oddity in Wisconsin law that makes it more expensive for Wisconsin companies to bid on out-of-state projects than on in-state projects, even though all the fabrication work would be done in Wisconsin.

The State of Wisconsin currently exempts materials from the sales-use tax when they are used in construction projects in Wisconsin for certain entities like local units of government. For example, if a Wisconsin steel fabricator purchased materials, which are stored, manufactured into I-beams, and then are used in real property construction in Wisconsin for qualified exempt entities the fabricator does not owe Wisconsin sales or use tax on its cost of the materials. However, if that same fabricator went through the same fabrication process in Wisconsin, but then used those I-beams in the construction of a qualified exempt entity in another state they would have to pay Wisconsin sales tax on cost of the materials. The additional 5.0-5.5 percent cost the sales tax adds to a bid can make it challenging for Wisconsin fabricators to successfully bid on out-of-state construction projects for exempt entities.



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Assembly Bill 383 creates a sales tax exemption for tangible personal property that is temporarily stored in the state for up to 120 days if this property is then altered and used in construction activity for certain projects in another state. This bill would make Wisconsin businesses more competitive allowing fabricators to win more bids, which in turn would create more business activity and more property and payroll taxes for the State of Wisconsin.

Merrill Steel has been seeking this change to create parity in Wisconsin's tax code for some time and we are very happy that Senator Marklein and Representative Tranel have introduced this bill. It will go a long way in helping Merrill achieve its goals and better support good paying jobs in Wisconsin.

In conclusion, I would like to thank you again Chairman Macco and members of the Ways and Means Committee for the opportunity to testify in support of Assembly Bill 383.