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Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Sales Tax Exemption for a Home Exchange Service Operated by the Department of Veterans Affairs (General Fund Taxes -- General Sales and Use Tax)

Bill Agency

[LFB 2007-09 Budget Summary: Page 189, #5]

CURRENT LAW

Wisconsin imposes a 5% general sales and use tax on the gross receipts from the sale and rental of tangible personal property and selected services. Currently, there are no sales and use tax exemptions specific to sales of a veterans home exchange service.

GOVERNOR

Provide a sales and use tax exemption for tangible personal property and taxable services that are sold by a home exchange service that receives funding from the Department of Veterans Affairs (DVA) and that is operated by DVA.

DVA currently operates two veterans homes, each of which offers a home exchange service where snacks, beverages, gifts, and other items are available for members, staff, and visitors to purchase. Under current law, the state sales tax applies to taxable items sold through a home exchange service. The proposed sales tax exemption for such sales would take effect on the first day of the second month beginning after publication of the budget bill. The administration estimates that the provision would reduce state sales tax revenues by a minimal amount.

DISCUSSION POINTS

1. Under current law, sales to governmental entities are exempt from the state's sales

and use tax. However, with the exception of sales by the United State government, sales by governmental entities are generally subject to the Wisconsin sales tax unless specifically exempted. For example, current law provides sales tax exemptions for admission fees to state parks and forests, state park camping fees, copies of public records, and animal tags sold by the Department of Agriculture, Trade, and Consumer Protection.

2. In addition, meals, food, food products, or beverages (except soda water beverages, fermented malt beverages, and intoxicating liquor) sold by hospitals, sanatoriums, nursing homes, retirement homes, and certain community-based residential facilities and day care centers on their premises to patients, employees, residents or guests are exempt from the tax, as are meals sold to the elderly or handicapped by "mobile meals on wheels."

3. As described above, DVA currently operates two veterans homes, each of which offers a home exchange service. As a home exchange service is part of a state agency, otherwise taxable purchases by such a service are exempt from tax. However, with the exception of any food and beverages that would be exempt under the exemption for such items described above, sales of otherwise taxable goods and services by home exchange services in the veterans homes are currently taxable.

4. The bill would create a general sales and use tax exemption for sales by a veterans home exchange service. This treatment would contrast with the general treatment of sales by state agencies. The treatment would be similar, however, to sales of otherwise taxable items in a snack or gift shop in a veteran's hospital or other federally operated medical facility for veterans. (With the exception of items specifically exempted from tax, sales of similar items by any other hospital or retirement facility in the state are subject to the sales tax.)

5. The bill would repeal and recreate the proposed exemption for sales by a home exchange service, as described above, to make the exemption consistent with the terms of the Streamlined Sales and Use Tax Agreement (SSUTA), effective January 1, 2008. This approach is the general approach used in the bill under the Governor's proposal to modify state sales and use tax provisions to conform to the SSUTA. However, as drafted, the bill would not actually create the proposed exemption (intended to take effect the first day of the second month after publication). To accomplish the intent of the proposal, the bill should be modified to insert the provision needed to do so.

ALTERNATIVES TO BILL

1. Approve the Governor's proposal, with the modification described above that would insert a provision needed to actually create the proposed exemption. There would be no change in the estimate under the bill that this provision would have a minimal fiscal effect.

2. Delete provision.

Prepared by: Faith Russell