LEAGUE OF WISCONSIN MUNICIPALITIES

131 West Wilson Street
Suite 505
Madison, Wisconsin 53703

608/267-2380
800/991-5502
Fax: 608/267-0645

E-mail: league@lwm-info.org
www.lwm-info.org

To: Legislative Council Steering Committee for Personal Property Tax

From: Curt Witynski, Assistant Director, League of Wisconsin Municipalities

Date: September 3, 2014

Re: Issues to Bear in Mind when Contemplating Changing Personal Property Tax Policy

Good morning Chairperson Stroebel and members of the steering committee. My name is Curt Witynski. I'm the Assistant Director of the League of Wisconsin Municipalities. My main job at the League is to serve as the association's chief lobbyist. I previously served as the League's legal counsel. The League is the primary voice for incorporated municipalities in the state capitol. Our membership includes all 190 cities in the state and all but a dozen of the 407 villages in Wisconsin.

Thank you for inviting me to participate in this third symposium on the personal property tax. Earlier today and during the committee's prior two meetings, you heard a lot of expert testimony on the history, administration, financial impact, and fairness of the personal property tax system. I've reviewed that testimony and want to acknowledge upfront that the administration and collection of personal property taxes is burdensome and time consuming for both businesses and municipalities. Yet, despite the administrative difficulties, we have significant concerns about repealing the personal property tax. I would like to spend a few minutes highlighting six critical points that have been mentioned in earlier testimony regarding the negative ramifications of eliminating the personal property tax, particularly with regard to the impact on city and village homeowners. I urge you to bear these issues in mind as you contemplate repealing or otherwise changing personal property tax policy.

1. Residential property owners bear most of this state's significant property tax burden.

Who pays the property tax?	Residential –	70.3%
	Commercial –	19%
	Manufacturing --	2.8%
	Personal Property --	2.5%
	Ag --	.4%
	Other --	5%

2. Elimination of the personal property tax on businesses will result in even more of the property tax burden shifting to residential homeowners. How much more?

    a. According to Legislative Fiscal Bureau (LFB) testimony, the share of net property taxes borne by residential property owners would increase on average by two percentage points statewide.

    b. According to LFB testimony, the net tax bill on a median valued home taxed at statewide average tax rates would increase from $2,926 to $3,006 or by $80 (2.7%).

3. The impact of eliminating the personal property tax will be greatest in cities and villages where most of the personal property tax base is located. 82% of the state's personal property tax base is located in cities and villages. Repealing the tax base will likely cause tax rates to increase in cities and villages more than in other parts of the state. Consequently, city and village residential home owners will bear most of the burden of the tax shift. For example, the City of La Crosse estimates that repealing the personal property tax may cause the tax rate in La Crosse to increase by 6.74% , which would mean that tax bills on an average $125,000 property in La Crosse would increase by approximately $252 per year.

    a. Breakdown of personal property tax valuation by local government type:

Cities --	$7.638 billion
Villages –	$1.975 billion
Towns --	$1.149 billion
Total:	$11.762 billion

    b. Breakdown of gross total personal property tax levied in 2013 collected in 2014:

Cities --	$202,504,299
Villages --	$45,936,069
Towns --	$41,339,015
Total Gross Levy:	$290,000,000 (Note: DOR reports that the total net levy collected in 2014 was $270,000,000.)

4. Fully exempting all personal property from the property tax will result in a reduction in the incremental levy for tax incremental finance districts. TIF districts, with only a few exceptions, are exclusively located in cities and villages.

    The LFB said in its testimony that the lost taxes on personal property within TIF districts would largely be offset by tax increases on other property within the district due to higher tax rates that municipalities would presumably apply to a smaller tax base to collect the same levy amount. If we consider property taxation to be a purely mathematical exercise, this theory would be valid. However, as we know, political pressures will undoubtedly compel many local elected officials to limit the amount of increase in property taxes for homeowners and others. If the personal property tax goes away, the LFB's theory is that local governments will likely levy whatever is needed to provide the same level of government services. However in many cases, I think local officials will look for ways to further reduce spending to lower their levy and maintain the same tax rate or mitigate the increase in the rate that would otherwise be necessary. Consequently, there will likely be revenue shortfalls in many TIF districts if the state eliminates the personal property tax on businesses.

5. Fully exempting all personal property from the property tax is likely to lead to a significant increase in disputes between property owners and municipal assessors and boards of review over what is classified as real versus personal property. Again, these disputes, which will increase the cost of tax administration, will occur mostly in cities and villages.

6. When the Legislature has exempted large amounts of personal property in the past, it has typically offset the reduction in the property tax base and avoided a tax shift by reimbursing local governments the lost tax revenue. Currently, the state pays municipalities and counties a computer aid payment to offset the personal property tax exemption for computer equipment that was created in 2001. The total payment for 2015 is set at $83.8 million.

   The tax shifting and the tax increase for homeowners discussed above could be avoided if repeal of the personal property tax was paired with an expansion of the current aid payment for computers and related property. Under this scenario, rather than shifting the personal property taxes to residential home owners, the state would make annual payments to local governments (totaling $268 million based on 2013(14) values and rates) to compensate them for the lost tax base.

   Given the state's tight fiscal condition, however, we are concerned that an annual personal property tax hold-harmless payment from the state to municipalities might cut into funding for shared revenue and other municipal aid programs or might be discontinued after a few years. Furthermore, calculating such a reimbursement payment requires that personal property values be determined annually. Consequently, businesses would still be required to comply with the personal property reporting requirements.

Conclusion. Thank you for allowing me to underscore several, perhaps unanticipated, but very real consequences for cities and villages and their residential taxpayers of eliminating the personal property tax. Thanks for considering our comments. Please let me know if you have any questions or need additional information. My e-mail address is: witynski@lwm-info.org