



State Senator Sheila Harsdorf

Date: February 19, 2014

To: Senate Committee on workforce Development, Forestry, Mining, and Revenue

From: Senator Sheila Harsdorf

RE: Senate Bill 577 relating to property tax exemption for rented personal property.

Chair Tiffany and Committee Members:

Thank you for holding a public hearing on Senate Bill 577 (SB 577), which seeks to provide a property tax exemption for rented personal property. I regret that I am unable to testify in support of this legislation in person due to a scheduling conflict, but appreciate the opportunity to share with you the importance of this legislation.

For over 30 years, state law has allowed for a property tax exemption for rental equipment that is rented for one month or less. This exemption was created to remove an administratively costly and burdensome tax on firms that rent equipment for short periods. Unfortunately, current law has not kept up with the changing needs and practices of the rental equipment industry. In today's economy, rental equipment is often rented for periods extending beyond a month. As a result, some jurisdictions have taken extreme measures toward the short term rental exemption by disallowing the exemption if just one piece of equipment is rented for over a month.

SB 577 would change the current property tax exemption period from one month to 364 days specifically for the renting or leasing of heavy equipment for construction, mining, or forestry. This change would make Wisconsin consistent with our neighboring states that have made similar changes to the definition of short term rentals.

Thank you for your consideration of this legislation and I urge your timely passage of SB 577.



STATE REPRESENTATIVE

KATHY BERNIER

Senate Committee on Workforce Development, Forestry, Mining and Revenue
Public Hearing – February 19, 2014

Testimony by Representative Kathy Bernier in Favor of
Senate Bill 731 – Property Tax Exemption for Rented Personal Property

Chairman Tiffany and Committee Members,

Thank you for holding this Public Hearing today providing the opportunity for me to speak in favor of Senate Bill 577 related to property tax exemption for rented personal property.

Before speaking to specific provisions of the bill I'd like to provide a brief background related to why this legislation is needed. In the 1989 Biennial Budget (Wis Act 31), the legislature established the Short Term Rental Property Exemption, ss. 70.111 (22), with minimal fiscal impact. The intent of the exemption was to promote economic growth by specifically targeting the rental property industry.

Since the provision's inception, the rental industry has changed while Wisconsin statutes have not. With SB 577, Wisconsin statutes can be updated to ensure the rental industry continues to spur both economic development as well as job growth. In today's economy, companies and small businesses are renting more equipment for longer periods of time. The outdated statutes have thus begun discouraging longer term rentals, preventing businesses from freeing up capital that otherwise could be used for growth and expansion.

Additionally, the intent of the original exemption has been changed by some jurisdictions taking extreme stances with regard to the short term rental industry by disallowing the exemption for an entire fleet of equipment when *only one piece of equipment was rented for a period exceeding one month*. The result of this practice is that the short term rental exemption in Wisconsin may not be uniformly and consistently applied throughout the state, or even within the rental industry.

The evolving nature of this outdated statute also puts Wisconsin at a competitive disadvantage with neighboring states and leaves our state trailing in the industry. Two-thirds of states have already addressed this issue, and states including *Minnesota, Illinois, and Iowa already do not impose a property tax on rented personal property*.

Senate Bill 577 puts Wisconsin in a better competitive position with neighboring states while providing a long overdue update and clarification of the statute. By expanding the exemption to 364 days or less, SB 577 ensures that the rental exemption is uniformly applied throughout the state and meets the practices and needs of the rental equipment industry.

Again, thank you, Mr. Chairman, for scheduling SB 577 for Public Hearing today. I would be happy to respond to any questions.

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Date: February 17, 2014

To: All Wisconsin Legislators

RE: SB 577

The American Rental Association (ARA) wholeheartedly supports the passage of SB 577 to modernize Wisconsin Statutes and remove any ambiguity from the Wisconsin's current Short Term Rental Property Exemption under Wisconsin Statute Section 70.111(22). SB 577 would provide certainty and clarity for all 90 of our Wisconsin-based ARA member companies, and serve to continue to allow them to assist in playing a vital role in providing the equipment needed to build and grow Wisconsin's economy.

Please reference the attached for more details regarding the ARA.

Thank you for your consideration of this important matter.

A handwritten signature in black ink that reads 'John W. McClelland'.

John McClelland
Vice President, Government Affairs
American Rental Association



United Rentals:

Requests update of Rental Equipment Tax Exemption provided by AB 731 and SB 577

WHO WE ARE:

United Rentals is the world's largest equipment rental provider, with an integrated network of 830 rental locations in 49 states. United Rentals' presence in Wisconsin is substantial with ten locations:

- Chippewa Falls
- Green Bay
- La Crosse
- Madison
- Marshfield
- Oak Creek
- Oshkosh
- Rhineland
- Schofield
- Waukesha

BACKGROUND:

The 1989 Biennial Budget (Wisconsin Act 31) created the Short Term Rental Property Exemption, Wisconsin Statute Section 70.111(22). The exemption provides a property tax exemption for rental equipment that is rented for periods of one month or less.

The exemption was created specifically to promote economic growth, including in the equipment rental industry. However, the rental industry has changed and the statutes should be updated to ensure that the rental industry in Wisconsin continues to spur economic development and job growth.

PROBLEM:

The one month property tax exemption started as a way to promote economic development, but now is suppressing it because the statutes have not kept up with the needs and practices of the rental equipment industry. In today's modern economy there are many reasons why companies and small businesses are renting equipment for longer periods of time.

By discouraging longer term rentals as the law does currently, the state is preventing businesses from freeing up capital that could be used on growing the business.

In addition, some jurisdictions have taken extreme stances with regard to the short term rental exemption by disallowing the exemption if *only one piece of equipment was rented for a period exceeding one month*. The result is that the short term rental exemption in Wisconsin may not be uniformly or consistently applied throughout the state or within the rental industry.



SOLUTION:

The solution with the greatest positive economic impact would be to eliminate personal property taxes on all rental equipment. However, in recognition of the possible fiscal impact (Wisconsin Act 31 had a “minimal impact”), we recommend expanding the month exemption to include equipment rented for up to one year as contained in AB 731 and SB 577. This will allow Wisconsin to be consistent with other states that have recently adopted updates to the short term rental definition to better reflect the current status of the rental industry.

AB 731 and SB 577 enjoy strong bi-partisan support with lead authors Senators Harsdorf and Shilling and Representatives Bernier and Billings. Other bi-partisan co-sponsors include: Senators Tiffany, Moulton and Lasee and Representatives Kooyenga, Kulp, Rodriguez, Kahl, Pridemore, Swearingen, Murphy, Thiesfeldt and Ohnstad.

OTHER STATES:

Wisconsin is falling behind neighboring states in this industry. Two-thirds of states have addressed this issue and *neighboring states, including Minnesota, Illinois, and Iowa already do not have a personal property tax on rental equipment* (See attached map).



United Rentals Locations in Wisconsin

With State Senate and Assembly Representatives

Chippewa Falls

Senator Moulton – R

Representative Bernier – R

Green Bay

Senator Cowles – R

Representative Weininger – R

La Crosse

Senator Shilling – D

Representative Billings – D

Madison

Senator Risser – D

Representative Berceau – D

Marshfield

Senator Moulton – R

Representative Kulp – R

Oak Creek

Senator Larson – D

Representative Rodriguez – R

Oshkosh

Senator Ellis – R

Representative Murphy – R

Rhineland

Senator Tiffany – R

Representative Swearingen – R

Schofield

Senator Petrowski – R

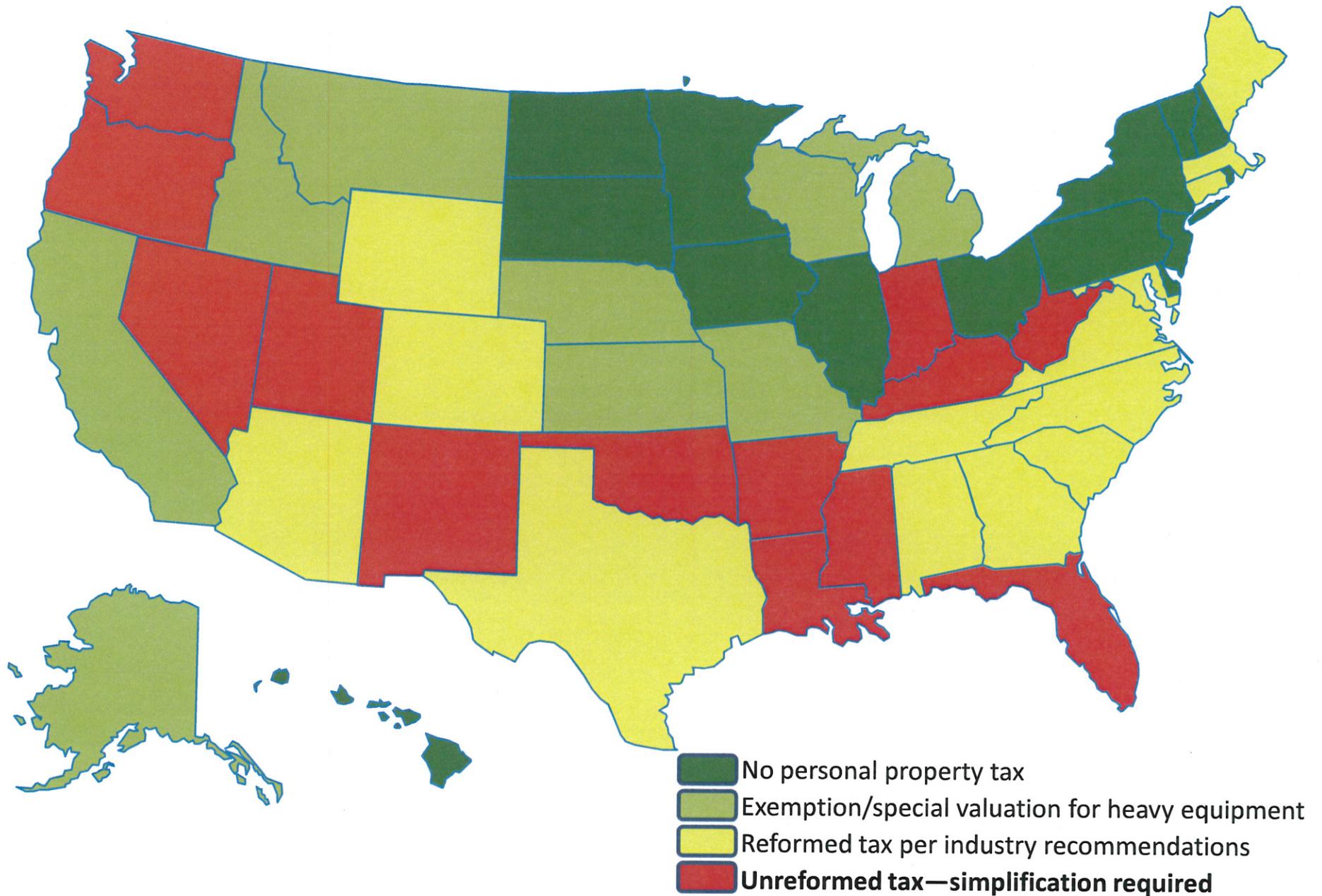
Representative Spiros – R

Waukesha

Senator Vukmir – R

Representative Hutton – R

Simplifying the Taxation of Heavy Equipment Rentals





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Date: February 5, 2014

To: All Wisconsin Legislators

RE: AB 731

The American Rental Association (ARA) wholeheartedly supports the passage of AB 731 to modernize Wisconsin Statutes and remove any ambiguity from the Wisconsin's current Short Term Rental Property Exemption under Wisconsin Statute Section 70.111(22). AB 731 would provide certainty and clarity for all 90 of our Wisconsin-based ARA member companies, and serve to continue to allow them to assist in playing a vital role in providing the equipment needed to build and grow Wisconsin's economy.

Please reference the attached for more details regarding the ARA.

Thank you for your consideration of this important matter.

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John McClelland
Vice President, Government Affairs
American Rental Association



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Improving on the Short Term Rental Tax Exemption

Overview

The American Rental Association is the international trade association for owners of equipment rental businesses and manufacturers and suppliers of rental equipment. The association's current membership includes more than 4,000 equipment rental businesses with more than 8,000 locations and 1,000 supplier/manufacturers throughout the United States. Industry revenues in 2013 are projected to reach \$33.5 billion. With approximately 90 ARA-member companies in Wisconsin, the total size of the state's rental market was estimated to be \$401 million in 2013. Rental revenues are expected to grow significantly over the next five years as the economy improves. The majority of ARA members - 58% - rent construction and industrial equipment with total rental revenues of \$234 million. All rentals in Wisconsin are currently subject to sales tax on each transaction, and sales tax is also assessed on the sale of used rental equipment.

Problem

Current property tax law promotes inequities and uncertainty for equipment rental companies in Wisconsin. When rental companies rent equipment for less than 30 days, they are exempt from paying personal property tax on that equipment. This exemption was enacted when the industry was much less mature than it is today. It is now very common for rental companies, particularly those renting construction/industrial equipment, to rent some of their equipment for more than 30 days at a time. Rental customers are renting equipment for longer periods of time because there has been a significant shift from owning equipment to renting that equipment. This shift is partly due to economic factors like tight credit and the sharp decline in construction activity caused by the recession that forced many contractors to sell their equipment fleets. The result is that rental companies are now providing much more of the equipment needed to initiate and complete large-scale construction projects than ever before. With the increasing sophistication and growth of the equipment rental industry, the current 30 day exemption creates uncertainty and an uneven playing field for both large and small companies. Uncertainties because a business is never sure ex ante what the duration of their rentals is going to be at the beginning of the year. The playing field is uneven because some rental companies will qualify for the exemption while others that are not materially different will not qualify. Additionally, states surrounding Wisconsin do not have this same provision and the exemption creates uncertainty and additional administrative burden for those companies doing business across state lines.

Solution

The American Rental Association supports an amendment to current law that would expand the 30-day exemption and exempt rental equipment from the personal property tax if the rentals are less than one year. We also believe that the exemption should be based on the average duration of the company's rentals and not the duration of any single rental contract. This approach would level the playing field for rental companies in Wisconsin and provide them certainty with respect to their tax liability. Rental transactions will remain subject to sales tax as will transactions involving the sale of used rental equipment.



2013 SENATE BILL 577

February 7, 2014 – Introduced by Senators HARSDORF, SHILLING, TIFFANY, MOULTON and LASEE, cosponsored by Representatives BERNIER, BILLINGS, KOOYENGA, KULP, RODRIGUEZ, KAHL, PRIDEMORE, SWEARINGEN, MURPHY, THIESFELDT and OHNSTAD. Referred to Committee on Workforce Development, Forestry, Mining, and Revenue.

1 **AN ACT to renumber and amend** 70.111 (22); and **to create** 70.111 (22) (b) of
2 the statutes; **relating to:** the property tax exemption for rented personal
3 property.

Analysis by the Legislative Reference Bureau

Under current law, certain personal property held for rental for periods of one month or less to multiple users for their temporary use is exempt from the property tax, if the property owner is primarily engaged in the business of renting or leasing property. Under this bill, certain property held primarily for rental for periods of 364 days or less to multiple users for their temporary use is exempt from the property tax, if the property owner is primarily engaged in the business of renting or leasing heavy equipment for construction, mining, or forestry.

Because this bill relates to an exemption from state or local taxes, it may be referred to the Joint Survey Committee on Tax Exemptions for a report to be printed as an appendix to the bill.

For further information see the *state and local* fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

4 **SECTION 1.** 70.111 (22) of the statutes is renumbered 70.111 (22) (a) and
5 amended to read:

Fiscal Estimate Narratives

DOR 2/6/2014

LRB Number	13-3878/2	Introduction Number	AB-0731	Estimate Type	Original
Description Property tax exemption for rented personal property					

Assumptions Used in Arriving at Fiscal Estimate

CURRENT LAW

Under current law, rented personal property is exempt from personal property taxation if it meets the following qualifications: (1) it is rented for periods of one month or less to multiple users for their temporary use, (2) it is rented without an operator, (3) the owner is not a subsidiary or affiliate of another enterprise which is engaged in any business other than personal property rental, (4) the owner is classified under industry group 7359 (equipment rental and leasing, not elsewhere classified) under the 1987 standard industrial classification manual published by the U.S. Office of Management and Budget, and (5) the property is equipment, including construction equipment, party supplies, appliances, tools, dishes, silverware, tables, or banquet supplies. Certain types of property are specifically excluded, such as automotive and computer-related equipment, television sets, video recorders and players, cameras, photographic equipment, audiovisual equipment, photocopying equipment, sound equipment, and public address systems and video tapes.

PROPOSED LAW

The bill creates a new exemption for rented personal property that meets the following conditions: (1) the property is held primarily for rental periods of 364 days or less to multiple users for their temporary use, (2) the property is not rented with an operator, (3) the owner is not a subsidiary or affiliate of another enterprise which is engaged in any business other than personal property rental, (4) the owner is classified under 532412 (rental of heavy equipment used in construction, mining, and forestry) of the North American Industrial Classification System, 2012 edition, and (5) the property is heavy equipment used for construction, mining, or forestry, including bulldozers, earthmoving equipment, well-drilling machinery and equipment, or cranes.

LOCAL FISCAL EFFECT

The personal property exempted under the bill would generally be classified as "furniture, fixtures, and equipment", whose equalized value for 2013 was \$5.057 billion. Reports by local assessors to the Department of Revenue (DOR) do not contain sufficient detail to accurately estimate the amount of property that could be exempt under the bill. In addition, since mining is deemed a manufacturing activity for property assessment purposes, equipment rented and used for mining should already be exempt (under the exemption for manufacturing machinery and specific processing equipment). For purposes of this estimate, based on sales of potentially qualifying companies, it is assumed the bill would exempt about \$25 million in property from property taxes. At the estimated statewide net tax rate for 2013/14 of \$21.05 per \$1,000 equalized value, the bill would have shifted about \$525,000 ($\$25,000,000 \times 0.2105$) in property taxes from the exempted property to the remaining taxable property.

STATE FISCAL EFFECT

Revenue from the state-imposed property tax for forestation purposes, whose rate is about \$0.1697 per \$1,000 equalized value, would decline under the bill by about \$4,240 ($\$25,000,000 \times 0.0001697$).

ADMINISTRATIVE COSTS

The DOR would incur costs to change its administrative procedures and to notify local assessors of the change in the law. These costs can be absorbed within current budgetary resources.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 13-3878/2		Introduction Number AB-0731	
Description Property tax exemption for rented personal property			
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, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S (Forestry)			-4,240
TOTAL State Revenues		\$	\$-4,240
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-4,240	\$
Agency/Prepared By		Authorized Signature	Date
DOR/ Daniel Huegel (608) 266-5705		Robert Schmidt (608) 267-9892	2/6/2014