

2009-11 State Budget Issues that Impact Economic Development

1. **Capital gains** -- The Governor's state budget bill, 2009 Assembly Bill 75, proposes to increase Wisconsin's long-term capital gains tax so that 60% of the gain on the sale of a long-term asset (an asset held for at least a year) would be taxed, rather than the current 40%. The Senate version of the State Budget increases the capital gains tax so that 100% of the gain on sale would be subject to the capital gains tax.
 - a. This change would impact everyone who invests in real estate, stocks and other assets. Families who are hoping to earn back some of the money their investments have lost over the past year would see more of their earnings taxed.
 - b. If the capital gains tax is increased, anyone who owns a second home, vacation property, or investment property such as residential rental property or commercial property would pay more in capital gains taxes when they sell the property. This could discourage people from investing in Wisconsin real estate. It would especially hurt those areas of the state which are heavily reliant on economic activity generated by second homes and vacation property.
 - c. This tax increase would also hurt small business owners, including Realtors, because they would pay significantly higher taxes on their gains when they sell their businesses. They would have less money for retirement and less money to invest in other businesses ventures. The taxes they pay on the assets they build up over the course of a career in business would rise substantially.
 - d. Moreover, this change would hurt Wisconsin's efforts to drive long-term economic growth by promoting start-up companies. Investors would pay higher taxes if they sold their current assets to invest in start-up companies, and they would have less incentive to take the risk of supporting promising start-up companies if the returns they hope to earn were taxed more heavily. All of this would slow the growth of new businesses, reversing the progress the Governor and Legislature have worked hard to achieve in recent years.

2. **Use Value (definition of "agricultural land")** – The Senate version of the State Budget includes a provision that changes the definition of "agricultural land" for purposes of use value assessments to exclude any

land that is platted OR zoned for residential, commercial or industrial use. Currently, agricultural land is valued based on its use, while all other property is valued based on its highest and best use.

- a. This provision will significantly INCREASE costs associated with commercial, industrial and residential development.
- b. With the downturn in the economy, many developments have been delayed, causing land that was planned and platted for development to continue to be used and taxed (for property tax purposes) as farmland until the economy improves. If this provision becomes law, the property tax assessments on this land will significantly increase, resulting in more financial hardship for developers and the real estate industry.
- c. This will greatly increase housing and business costs and hurt affordability.
- d. This is the worse possible time to be increasing carrying costs on property that will be developed in the future, given the condition of the homebuilding industry.

3. Prevailing wage –

- a. Increases the cost of construction for all units of government and
- b. leads to higher costs for taxpayers
- c. Likely results in less construction work and fewer jobs
- d. Discourages private development by applying prevailing wage to
- e. privately funded municipal improvements
- f. Negatively impacts small business contractors and diminishes their
- g. opportunities to work on smaller municipal projects
- h. Establishes a discriminatory reporting and compliance standard
- i. based on union affiliation
- j. Creates a confusing and impractical application of prevailing wage
- k. to the prefabrication of piping and mechanical systems

4. Farmland Preservation Conversion Fee – The Governor's version of the State Budget included a proposal that would create a new penalty (in addition to the use value penalty) on farmland anytime the zoning is changed from exclusive agriculture to another type of zoning. The new farmland conversion penalty would be equal to 3 times the assessed value OR HIGHER, if the county decides to increase the tax. The Assembly modified this proposal to limit the amount by which counties can increase the fee to 1 times the assessed value (total fee would be 4 times the assessed value (3 times (state) + 1 time (local))).

- a. **The new farmland conversion penalty will increase the cost of commercial development and housing by \$810/acre.** Based upon the state's average assessed value for farmland in 2009 (\$270 per acre), the new tax will increase the cost of farmland for

development by an additional \$810/acre, which will be passed on to businesses and homeowners and directly increase the cost of living and doing business in Wisconsin.

- b. **Every time the new farmland conversion penalty is imposed on an acre of farmland, 148 households will be priced out of the market.** According to a study of 11 metropolitan areas in Wisconsin by the National Association of Home Builders, every time the cost of housing is raised by \$810, approximately 148 households in Wisconsin will not be able to afford to purchase a home.
- c. **For every home that is not built, approximately 3 jobs will not be created and \$89,000 in tax revenues will be lost.** According to a study by the National Association of Home Builders, construction of each new single-family home creates 3.049 jobs and generates more than \$89 thousand in tax and other revenues for federal, state, and local governments.
- d. **New housing and a strong housing market is the key to our state's economic recovery.** New construction and housing represent 15.2% of Wisconsin's Gross State Product. Our current economic condition shows the important impact that housing has on our economy. Without new housing and commercial growth and development, Wisconsin's state and local economies will suffer.
- e. **Planning is the key to protecting farmland and providing affordable housing.** While providing affordable housing is important to Wisconsin families and our state's economy, so too is protecting farmland. We can have both, but the key is good local planning, not state-imposed penalties for converting land from one use to another.