The personal property tax is an archaic tax that once was applied to nearly all personal property owned by individuals and businesses (i.e., home furnishings, office property, all manner of equipment), but which now has become a relatively small tax. In 2014, the total equalized value of all personal property was $12.2 billion. Total value of all property subject to the property tax in 2014, including personal property, is $479 billion. Thus, the personal property represents about 2.5% of the total property tax base. It is estimated that about $270 million in revenue is raised by the personal property tax, although this estimate is likely high.

There are several reasons to eliminate the personal property tax:

- **Widespread Inequity.** Individuals no longer pay personal property tax. Likewise, some of the most valuable personal property − manufacturing machinery and equipment − is exempt. Wis. Stat. § 70.11 contains 60 separate sections that contain exemptions from the property tax, most of which apply to personal property. However, virtually all Main Street business, from mom-n-pop retailers to large national chains must still report and pay tax on personal property.

- **Burden Disproportionate to Revenue Raised.** For the remaining taxpayers, the personal property tax raises modest revenues, but creates a disproportionate reporting burden for every Main Street business. Every business must annually prepare and file a statement of personal property for each of its Wisconsin locations and maintain records on assets at each location. It is not unusual for the cost of preparing the return to exceed the tax paid, with many “Main Street” taxpayers paying less than $100 per year in personal property taxes. For example, public records show that one insurance agency in Wauwatosa paid only $7.12 in personal property tax in 2013, but nevertheless had to prepare a statement of personal property.

- **Onerous Record-Keeping Requirements.** The record-keeping requirements are much more onerous than the requirements of state and federal income/franchise taxes. Not only must all taxpayers keep records of all personal property, including those that have been totally depreciated for tax and book purposes, but the taxpayers must keep track of their specific location within the state and use a depreciation method that differs from the requirements of taxing authorities and which periodically changes.

- **Neighboring States are Moving Away from Personal Property Tax.** If Wisconsin does not eliminate the personal property tax, it may soon be an island in the Midwest. Iowa and Illinois no longer have a personal property tax. Michigan is phasing out its personal property tax out over the next 8 years.
Elimination of Personal Property Tax and Statement of Personal Property/Form M-P (cont'd)

- **Reduce Messy Manufacturing Exemption Fights.** A constant source of friction between DOR and manufacturers is the definition of manufacturing to determine which machinery and equipment is exempt, and which is not. In order to be exempt, the machinery/equipment must be directly and exclusively used in manufacturing. The starting and ending point of the manufacturing process and whether machinery/equipment is directly and exclusively used in manufacturing are judgment calls. If all personal property is exempt, these issues go away with respect to the property tax.

It is important to note that the total personal property value includes certain items of real property that are taxed as personal property, such as buildings erected on leased land. There is no intent to eliminate tax on such buildings. It is unknown how much personal property value consists of buildings on leased land. The “All Other” category in which these buildings are included has a total equalized value of more than $2.4 billion. If 25% of the value of this category came from buildings on leased land, then the $12.2 billion value of all personal property would be reduced to less than $11.6 billion.

**Policy Request**

Adopt a four-year phase out of the personal property tax as proposed in 2015 Assembly Bill 450 and Senate Bill 765.