

Miscellaneous Options for Increasing State Tax Revenue

Federal revenue	Potential revenue (biennial amounts)	Discussion
Increase in Federal Medical Assistance Percentage (FMAP)	\$500 million to \$1.5 billion (Each 1 percentage point increase in the FMAP generates about \$50 million/yr. for WI.)	States and the federal government share the cost of the Medicaid program. During economic downturns, Congress often helps states out by temporarily increasing the federal percentage, which is known as the FMAP. Proposals for the federal economic recovery bill have called for FMAP increases ranging from 5 percentage points over 24 months to 12 % over 27 months. The House bill is roughly in the middle of that range. The increased funding would help the state cope with increases in BadgerCare Plus enrollment because of the recession, and would also help cut into the
Federal block grants for state relief	\$355 million +	Some versions of the economic recovery bill would provide a grant of at least this amount. However, the House would provide many targeted increases in lieu of a more flexible block grant.
Hospital assessment	The Gov's latest proposal would reduce the deficit by about \$300 million (applying the assessment retroactively to July 1, 2008), & perhaps more if FMAP is increased.	In mid-January the Governor proposed a 1.4% assessment on hospital revenue. It would generate about \$300 million/yr in state revenue, and would pull in at least The to increase hospitals' Medicaid reimbursement rates, thereby leveraging federal matching funds. It's supported by the WI Hospital Association.
Corporate taxes:		
Combined reporting	Roughly \$120 million (effective 1/1/2010)	Limits corporate tax avoidance by preventing corporations from sheltering Wisconsin profits in subsidiaries located in other states.
Oil company gross receipts tax	The Governor's 2.5% proposal was expected to raise about \$279 million in the 2007-09 biennium.	Some have suggested increasing it to 5%. The \$s might go into the Transportation Fund. The drop in oil prices reduces the potential revenue, but oil companies are still extremely profitable. Also, lower energy prices, coupled with the importance of discouraging energy use, could make it more palatable politically.
Eliminate domestic production deduction	Roughly \$67 million in 2009-11	This deduction, which resulted from federal legislation, is poorly targeted because it includes investments in other states. About half the states have eliminated it.

Individual income tax:		
Tax full amount of long-term capital gains	\$415 million (assuming begin 1/1/2010)	This amount could be much lower in the next few years because of stock market declines.
Increase the top marginal tax rate to 7.75%	\$270 million (assuming begin Jan. 1, 2010)	Would increase from 6.75% to 7.75% the highest marginal tax rate, which only applies to income above \$190,210 for married couples and \$142,650 for single filers.
Sales tax:		
Extend the sales tax to exempt services	Could raise well over \$1 billion, (assuming begin July 1, 2009) but that depends upon which services, if any, continue to be exempted	This would be a more progressive option than increasing the current sales tax rate, while continuing to exempt most services.
Main Street Equity Act (streamlined sales tax collection)	\$46 million (begin Jan. 1, 2010)	Nearly all of the gain in 2009-11 comes from closing the new loophole for sales of customized computer software. Larger gains are expected over the longer term by encouraging national retailers to comply voluntarily with state sales tax laws or if Congress were to require compliance.
Estate tax:		
Restore the estate tax (which expired on Jan. 1, 2008)	Restoring it would probably yield about \$100 million in 2009-11 (& about \$110 million to \$150 million/yr thereafter).	This is the most progressive tax, and its repeal benefits many people in other states. The state is just starting to feel the delayed effect of suspension of the tax. If Congress takes no action, it will resume in CY 2011 (but that wouldn't affect the 2009-11 budget).
Miscellaneous revenue		
Eliminate the property tax exemption for business computers, cash registers and fax machines	Would save the state about \$150 million in 2009-11 if the state no longer needed to reimburse local governments for the lost revenue.	When this property tax exemption was enacted, the state began compensating local governments for the loss of property tax revenue.
Step up revenue collection efforts by increasing DOR staff.	Increased audit and collection activity could generate \$200 million in state tax revenue for the biennium.	Some of the increase in revenue would be offset by about \$25 million in personnel expenses, but the experience in Minnesota shows a large net gain from investing in revenue collection efforts.
Transportation revenue		
Increase gas tax or restore indexing	A one-time, 1-cent increase would yield roughly \$64 million. Indexing in the 2007-09 biennium would have generated about \$86 million.	The revenue increase would presumably go into the Transportation Fund (unless some gas tax \$\$ could be used for other transportation purposes). A delayed effective date would cut 25% or more from the 1 st year increase.
Adopt vehicle registration fee that's graduated based on the value of the vehicle (using the MI model)	Would raise about \$14.5 million in the 2 nd year of the biennium. The amount would grow gradually to about \$121 million in the 7 th year.	This would be a more progressive way of raising Transportation Fund revenue. Increased revenue phases in gradually since it would apply prospectively to vehicles purchased after the effective date.