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Revenue Matters - 2008 Issue # 6
Wisconsin Budget Project - WCCF
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Please feel free to forward messages to any other interested parties, and encourage others to sign up for this and/or other WCCF mailing lists at <http://capwiz.com/wccf/mlm/signup/>

Note: There's a **Wisconsin Way meeting in Appleton this evening** and one in **Madison on Aug. 19** (see item #4).

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1. SUPREME COURT AFFIRMS NEW CORPORATE TAX LOOPHOLE, BLOWS HOLE IN STATE BUDGET

A decision issued on July 11 by the WI Supreme Court throws the state budget way out of balance - though there is still some doubt about how big the revenue loss will be and how soon. The Legislative Fiscal Bureau estimated that the state will have to pay the affected businesses about \$265 million in tax refunds and interest. In future years the case will cost the state an estimated \$28 million per year.

Quoting from the Journal Sentinel article about the ruling:

"The 4-3 decision upheld the state Tax Appeals Commission, which ruled that the Menasha Corp. was illegally charged the 5% state sales tax on specialized software it purchased. State tax collectors had argued that the company bought prewritten computer software, which is taxable.

Writing for the court, Justice Annette Ziegler said the three-member Tax Appeals Commission was created as 'the final authority for hearing and determination of all

questions of law and fact' on tax issues."

<http://www.jsonline.com/story/index.aspx?id=771699>

Dept. of Revenue officials said they think the problem will be manageable this year because it may take a while before the state has to pay the refunds and interest. Yet even if those payments don't have to be made in the current biennium, it appears that the ruling will cause roughly a \$300 million increase in the state's \$1.7 billion structural deficit in 2009-11 (unless another budget adjustment is enacted early next year to increase revenue or make cuts that address the new budget hole).

2. FY 2008 REVENUE MEETS EXPECTATIONS

The state got a little bit of good fiscal news in mid July when the Dept. of Revenue released preliminary figures on state revenue collections in the 2007-08 fiscal year, which ended June 30. Despite the worsening economic downturn, tax collections met the estimates that the budget adjustment bill was based on, so the state appears to have finished the fiscal year in the black (barely). Of course, those revenue estimates had been revised downward early this year; but meeting the reduced target still came as a relief, given that the national economy has turned down more than anticipated six months ago.

You can find the revenue collection figures at:

<http://www.revenue.wi.gov/news/080718.html>

Although meeting the tax collection target was welcome news, the state could still have trouble hitting the target for the current fiscal year. As I indicated in the last issue of this newsletter, the budget adjustment bill was premised upon an estimated increase in GPR funding of 3.1% in 2008-09. That increase was based on an assessment of national and state economic conditions that included an assumption that oil prices would decline to about "\$73 per barrel by the fourth quarter of 2008, and then remain between \$70 and \$75 per barrel throughout the rest of that year and 2009."

If the much higher cost of energy continues, that would diminish the prospects for revenue growth by further suppressing the economy and by shifting spending away from goods that are subject to sales taxes. If revenue growth does fall short of the 3.1% target, that would further increase the large budget hole opened up by the Supreme Court decision noted above, and could necessitate another budget adjustment bill early next year.

3. STATE AGENCIES DEVELOPING REDUCED BUDGETS

Governor Doyle directed agencies to submit their budget requests for the next biennium (which begins on July 1) by September 15. He called on most agencies to hold their overall spending at the 2009-09 level, and also told them to submit plans by November 17 to reduce the base budgets for non-federally funding state administrative operations by

10%. In the meantime, we still don't know where the agencies are making cuts needed in the current fiscal year for the lapses required by the budget repair bill.

The budget instructions provide for increases in basic operating expenses (fuel and utilities, standard budget adjustments, etc) and for increases in entitlement programs and school aids. The instructions also outline 8 themes that are the "core concepts" for developing the next budget: reforming health care, investing in higher education, caring for Wisconsin's kids, continuing economic competitiveness, energy efficiency, supporting local government, protecting Wisconsin's citizens and enhancing Wisconsin's natural resources.

The "zero growth" directive and base reduction directives are basically the same as Doyle ordered in planning for his 2005-07 and 2007-09 budgets. Doyle's predecessor, Scott McCallum, also directed "zero growth" in budget instructions for the 2001-03 budget, which became Doyle's responsibility; however, McCallum directed consideration of base budget cuts of only 5%.

You can find the Governor's budget instructions at:

<http://www.doa.state.wi.us/docview.asp?docid=7110&locid=3>

4. "WISCONSIN WAY" COMPLETING 2ND ROUND OF MEETINGS

The Wisconsin Way initiative is wrapping up its second set of public forums across the state. Wisconsin Way is a grassroots project engaged in a collaborative search for solutions to control property taxes while maintaining the superior public services and quality of life that all Wisconsinites value.

The meetings provide an opportunity to: hear what priorities and issues were raised in the first forums; learn what economists, private sector policy analysts and UW-Madison public affairs experts have discovered in their research about property taxes, public services and Wisconsin's long-term economic viability; and, most importantly, weigh in as the workable blueprint for the state's future takes shape.

Over the last month or so, public meetings have occurred in about 10 communities, and two more are scheduled - including Appleton this evening and Madison next week (see below). Forums in Superior and Rhinelander had to be postponed and will probably be rescheduled in October.

Appleton Public Forum

8/14/2008

6:00 PM - 8:00 PM

The Grand Meridian

2621 N. Oneida St., Appleton

Madison Public Forum

8/19/2008

6:00 PM - 8:00 PM

Alliant Energy Center-Exhibition Hall
1919 Alliant Energy Center Way, Madison

Registering ahead of time is encouraged, but not required. To register or learn more, go to:

<http://www.wisconsinway.org/Template0.aspx?pid=1&lif=1>

5. FEDERAL CORPORATE TAX BREAK COSTS WI \$24 MILLION THIS YEAR

A recent paper by the Center on Budget and Policy Priorities (CBPP) explains that WI is one of 27 states that collectively are losing hundreds of millions of dollars due to a federal corporate tax break approved by Congress a few years ago. The tax break, known as the "domestic production deduction," mainly benefits large, profitable, corporations - **particularly oil companies**. CBPP estimates that it will reduce WI tax revenue by \$24 million in FY 2009, and \$37 million in FY 2011 and thereafter.

Federal tax breaks like this can cut into state tax revenue because states often make their tax deductions consistent with the federal deductions. However, states are increasingly "decoupling" from federal law, and that trend is likely to continue as state fiscal problems grow. Twenty states have disallowed the domestic production deduction, including two that decoupled this year.

The report is titled States Can Opt Out of the Costly and Ineffective "Domestic Production Deduction Corporate Tax Break, and is posted at:

<http://www.cbpp.org/7-29-08sfp.pdf>

6. RECORD FEDERAL DEFICIT EXPECTED IN FY 2009

The Office of Management and Budget announced last month that the budget deficit will likely grow to \$482 billion in FY 2009, which would surpass the previous deficit record of \$413 billion set in FY 2004. The deficit forecast reflects the combination of increased spending and tax revenue shortfalls due to the weakening economy.

The projection actually underestimates the deficit, because it leaves out about \$80 billion in costs for the wars in Iraq and Afghanistan. This year's deficit (for federal fiscal year 2008, which ends Sept. 30) is expected to reach \$389 billion, more than 50% higher than when estimated last July.

The record-breaking deficit is a dramatic turnaround during the Bush presidency. He inherited a \$128 billion surplus when he came into office.

For more, see this article in CQ Today:

<http://www.cqpolitics.com/wmspage.cfm?docID=cqmidday-000002927816>

7. SENATE FINANCE BILL WOULD IMPROVE CHILD TAX CREDIT

In late July the Senate Finance Committee released an amended version of the "tax extender bill" (S.3335). This legislation extends certain tax provisions that expired at the end of 2007. Among the tax proposals approved by the committee is an amendment that would make the child tax credit (CTC) available to about 2 million more low-income families. An additional 10.1 million children in families would receive an increase in their refund above what is currently received.

The Credit is a \$1,000 per-child tax benefit intended to help working families. Unfortunately, current law is structured in such a way to prevent many low-income working families from benefiting in full, and some families are actually excluded altogether. Many families who benefited from the CTC in previous years are no longer eligible, even though they are working the same amount. They no longer qualify because the income floor for eligibility has been raised for inflation, yet many families' incomes have not.

The bill would lower the income threshold for eligibility for refundable credits families to \$8,500, from the current \$12,050. That would extend benefits to an estimated 40,412 Wisconsin children who otherwise wouldn't be eligible and provide an increased tax benefit to almost 140,000 additional Wisconsin children. Democrats in the U.S. Senate hoped to have a floor vote on the bill before the August recess, but were unable to get the 60 votes necessary to overcome GOP efforts to avoid a vote.

A short paper by the Center on Budget and Policy Priorities discusses who would benefit from the changes and rebuts some of the misperceptions about the current floor on eligibility. It notes that 70% of the children who would benefit live in families in which a parent works 30 or more hours per week for at least 50 weeks during the year.

<http://www.cbpp.org/5-15-08tax.pdf>

8. OTHER REVENUE ISSUES IN THE NEWS

-- Barrett vetoes 'wheel tax' - Aug. 12, Journal Sentinel - "As he had promised, Milwaukee Mayor Tom Barrett on Monday vetoed a proposed \$20-a-car yearly local vehicle registration fee, saying it would unfairly shift the burden of street reconstruction entirely to city residents."

<http://www.jsonline.com/story/index.aspx?id=782088>

-- "State debates inspection fees" - Aug. 5, Janesville Gazette - "Two state departments are debating fees for inspections of restaurants, campgrounds, convenience stores, tattoo parlors, farms and other businesses. ...The department of health services is facing a

projected \$2.5 million deficit for its Food Safety and Recreational Licensing program. To cover the gap, the department could raise the fees for the licenses it issues."

<http://www.gazettextra.com/news/2008/aug/05/state-debates-inspection-fees/>

-- "Municipal officials brace for tightest budgets in decades -- Cuts are expected; Wisconsin's levy limits are contributor" - July 28, Journal Sentinel - "From diesel fuel and road salt to overtime pay and health insurance premiums, rapidly escalating costs of operating local governments are about to collide with state-imposed levy limits, causing municipal officials to brace for their tightest budget squeeze in decades. Although early in their work on 2009 local government budgets, many municipal officials already are preparing for rising costs and slow growth in an economic downturn to hit the brick wall of 2% levy limits."

<http://www.jsonline.com/story/index.aspx?id=776737>

-- "Vote on tax referendum veto to be postponed" - July 24, Journal Sentinel - "A vote to override Milwaukee County Executive Scott Walker's veto of a referendum on a 1% county sales tax increase that had been scheduled for today will likely be postponed until Sept. 4, County Board Chairman Lee Holloway said."

<http://www.jsonline.com/story/index.aspx?id=775998>

-- "Yes, it is property tax relief" - This July 20 Journal Sentinel editorial regarding the proposed advisory referendum in Milwaukee County (see article above) defends the proposal and says that any hope for an affirmative vote "is going to require supervisors to counteract opponents' disinformation."

<http://www.jsonline.com/story/index.aspx?id=774068>

-- "Wisconsin's fund to pay jobless running dry" - July 21, State Journal - "With the economy struggling and jobless claims rising in the state, Wisconsin's reserve fund for paying those claims could slip into insolvency in March of next year, a state projection shows. That could force the state, for the first time in two decades, to borrow money from the federal government to pay jobless claims by laid-off workers. The state's unemployment reserve fund, already well below national averages and federal recommendations, has just a quarter of the cash it had 7 years ago on the eve of the country's last economic slowdown, state and federal figures show. Steps to strengthen the fund reserves take effect early next year, but the fund could face a crisis if jobless claims shoot up before then, experts said."

<http://www.madison.com/wsj/topstories/297103>

9. READING ROOM

-- "Evaluating Candidates on Taxes" - United for a Fair Economy has created Action Tools for evaluating candidates on taxes. They contain short descriptions and definitions of key progressive principles and sample questions that you can ask as you research candidates' proposals and positions.

http://faireconomy.org/news/evaluate_candidates_on_taxes

-- "Who Pays Capital Gains Tax?" - This July #1 Urban Institute report undercuts one of the arguments made by defenders of capital gains tax breaks, who contend that those tax breaks are not regressive. The report notes that fewer than one in seven individual income taxpayers reported taxable capital gains in 2006. Over half of taxpayers with gains had incomes below \$75,000, but most capital gains were reported by very high income taxpayers. Many more Americans accrue capital gains on corporate shares they hold within tax-deferred employer-sponsored retirement plans, but they do not pay capital gains tax on these gains.

<http://www.urban.org/publications/1001201.html>

-- "Only a Few of the 2001 and 2003 Tax Cut Provisions Benefit Families with Modest Incomes: But a Superficial Treasury Analysis Obscures the Fact" -This paper by Jim and Chye Ching: for the Center on Budget and Policy Priorities notes that a recent Treasury report, apparently intended to encourage the extension of all of the 2001 and 2003 tax cuts, incorrectly implies that many of these tax cuts benefit low- and middle-income taxpayers. The CBPP paper shows that low- and middle-income Americans have gained little from the 2001 and 2003 tax cuts other than through:(1) improvements to the Child Tax Credit, (2) the creation of the 10-percent tax bracket, and (3) "marriage penalty" relief.

<http://www.cbpp.org/8-7-08tax.htm>

-- "Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes" - A GAO study released on July 25 concludes: "IRS records show that, as of September 30, 2007, over 1.6 million businesses owed over \$58 billion in unpaid federal payroll taxes, including interest and penalties. Some of these businesses took advantage of the existing tax enforcement and administration system to avoid fulfilling or paying federal tax obligations-thus abusing the federal tax system."

<http://www.gao.gov/cgi-bin/getrpt?GAO-08-617>

Highlights - <http://www.gao.gov/highlights/d08617high.pdf>

July 29 testimony to Senate Committee on Homeland Security and Governmental Affairs: <http://www.gao.gov/cgi-bin/getrpt?GAO-08-1034T>

-- "What's So Bad About Enforcing the Law?" (regarding HSAs) - In April, the House of Representatives passed a bill to prevent individuals with Health Savings Accounts from easily, but illegally, evading taxes. In this commentary, Lisa Clemans-Cope of the Urban Institute says, "the loudest response has been opposition from the insurance industry and its political allies,' and she questions that opposition. Her commentary concludes: "The wealthy are disproportionately advantaged by the legal use of HSAs; why would we want to devote more tax dollars [for HSA tax breaks] to allowing their misuse?" http://www.urban.org/health_policy/url.cfm?ID=901173

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