

Wisconsin Council on Children and Families
555 W. Washington Ave., Suite 200
Madison, WI 53703
Phone (608) 284-0580

Revenue Matters -- 2009 Issue # 6

Wisconsin Budget Project -- WCCF
Jon Peacock (jpeacock@wccf.org)
Oct. 15, 2009

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: Many employers have begun their fall workplace giving campaigns, through which you may be able to contribute to Community Shares of Wisconsin (CSW) and WCCF. Those campaigns provide a great way to support WCCF and other members of CSW. See item #10.

In this issue:

1. Wisconsin Now Below Average in Per Capita Spending and Taxes
2. End to Tax Reciprocity Likely to Cause Large Budget Hole
3. Rep. Mason Proposes Millionaires Tax to Fund Tech Colleges
4. WCCF Issues Series of Papers on Budget Bill
5. IWF Report Examines
6. Federal Estate Tax Debate Splits Conservatives
7. 2008-09 Tax Revenue Falls Slightly Short of Estimates
8. Other Revenue Issues in the News
9. Reading Room
10. Workplace Giving Time -- Support WCCF & Community Shares

1. WISCONSIN NOW BELOW AVERAGE IN PER CAPITA SPENDING AND TAXES

New data from the U.S. Census Bureau show that Wisconsin was well below average in total state and local spending per capita and also below average in per capita state and local taxes during the 2006-07 fiscal year. A [two-page analysis](#) of the new data by the Wisconsin Budget Project shows the downward trend in spending and taxes since the 1999-2000 fiscal year and compares Wisconsin to the national average on a wide variety of measures of government spending and revenue (per capita and relative to personal income).

As in the past, the WI Taxpayers Alliance report and the resulting [press coverage](#) focused almost exclusively on one specific aspect of the data - state and local taxes relative to income. On that measure Wisconsin ranked 13th in fiscal year 2007, compared to 5th in 2000. (If the District of Columbia is excluded, WI dropped from 4th to 12th over that period of time.) The repeated emphasis of that sole measure creates the mistaken impression that Wisconsin is a high spending state. Here are some of the other significant facts contained in our analysis, shedding a different light on WI spending and taxes:

- Wisconsin has fallen to 25th in total state and local spending per capita, down from 14th highest in 2000, and 5.8% below the national average.
- Total state and local taxes per capita in 2006-07 were \$65 less per person than the national average.

- Our state continues to rely less on fees and other revenue sources than most other states, and now ranks 39th in that category, 13 percent below the national average.
 - Wisconsin fell to 46th in per capita federal revenue.
 - In what is called "own source" revenue - which combines all state and local taxes, fees and things like interest earnings, but excludes federal revenue - Wisconsin fell to 26th in the per capita ranking (5% below the national average) and 23rd when it is measured relative to income.
-

2. END TO TAX RECIPROCITY LIKELY TO CAUSE LARGE WI BUDGET HOLE

Minnesota Governor Tim Pawlenty was unable to reach an agreement with state legislators on how to resolve Minnesota's budget deficit. His response was to unilaterally implement numerous cost saving measures - among which is a plan he announced in June to receive more timely reimbursements from Wisconsin under the tax reciprocity program.

After negotiations between the two states failed to reach agreement on a modified timetable, the Minnesota Dept. of Revenue announced last month that it is terminating the program, and the reciprocity provisions will no longer apply to cross-border workers for income earned after the end of this year. Press coverage of the issue has focused on the effect on taxpayers who work on the other side of the border and will now have to file returns in both states. By some accounts, the change is expected to affect about 13,000 Minnesotans and 33,500 Wisconsin residents. Because there are so many more WI residents who work in MN, our state reimburses MN for the tax it collects on income earned in MN. However, the crux of the problem is that the payments are made about 17 months after the taxes are collected.

There has been surprisingly little said to date about the adverse affect on the Wisconsin budget. Repealing the agreement is expected to yield \$131 million in revenue for MN over the biennium - \$43 million in FY 10 and \$88 million in FY 11. That's revenue Minnesota would have gotten eventually, but repealing reciprocity allows them to collect it in the current biennium and is one of the many short-term solutions comprising Pawlenty's budget-balancing plan.

Since filing in both states will be a nuisance for border-crossing workers, and some may have to pay more, legislators from the border counties are interested in forging a compromise and held a meeting Monday to see if they could work something out. (See yesterday's [La Crosse Tribune article](#).) I applaud the effort, but they have little leverage to restore something that was unilaterally terminated by the Pawlenty Administration.

Thus far, I haven't seen any statements from the Doyle Administration about what the change is likely to mean for WI in the event that some kind of deal cannot be reached to resurrect a reciprocity agreement. I suppose that's wise, since making a big issue of it wouldn't help the state's bargaining position, if there's still some hope of salvaging a revised agreement.

3. REP. MASON PROPOSES MILLIONAIRES TAX TO FUND TECH. COLLEGES

On Sept. 8, Rep. Cory Mason unveiled the Wisconsin Jobs Initiative, which would increase the income tax on millionaires in order to take advantage of a federal program proposed by President Obama to invest in technical colleges. Rep. Mason's proposal would raise the income exceeding \$1 million by one percentage point and is expected to raise \$145 million annually. That funding would secure another \$135 million in federal matching grants if the President's initiative is enacted. Mason said, "I want Wisconsin to be first in line for those grants."

The Institute on Taxation and Economic Policy (ITEP) notes that the actual net tax increase for WI millionaires would be reduced because they can deduct their state income taxes on their federal tax forms. (Read [ITEP's brief](#) on the federal offset.)

4. WCCF SUMMARIES OF KEY BUDGET ISSUES

The WI Budget Project has prepared a series of papers about different aspects of the biennial budget bill and the challenges ahead. Topics include:

- [An Overview of the 2009-11 State Budget](#) - This paper provides a general picture of how the budget was balanced and outlines some of the more significant decisions relating to services for children and families.
- [Federal Fiscal Relief Helps Balance the Budget](#) - Through the American Recovery and Reinvestment Act (ARRA), the federal government provided significant sums to state and local governments, allowing them to avoid even more painful cuts to critical services and programs. This 2-page paper examines that revenue and the challenges facing the state when it expires at the end of 2010.
- [Revenue Uppers Help Close Budget Shortfall](#) - The biennial budget bill makes changes that generate a little over \$2 billion in revenue. However, these revenue uppers by themselves closed only a fraction of the budget gap, and General Fund taxes in each year of the new biennium will be less than the level in 2008-09.
- [What's Passed is Prologue...for Future Budget Difficulties](#) - This brief paper examines the magnitude of the state's structural deficit and its causes, such as phased-in tax cuts and the use of short-term fixes for long-term spending commitments.
- [Health Care Highlights of the 2009-11 Budget](#) - This paper provides an overview of the major provisions relating to health care in the 2009-11 budget bill and looks ahead to the challenges the state will face in 2011-13.
- [Supports for Low-Income Families](#) - Notwithstanding the state's severe budget challenges, policymakers were able to protect key safety net programs and even make some modest improvements in programs serving low-income families. This paper examines the budget provisions relating to the Wisconsin Works (W-2) program, child support, and tax credits for low-income families.

You can find the full series of papers on the [WI Budget Project website](#).

For a far more detailed and comprehensive summary of the budget bill, see the [Legislative Fiscal Bureau's extremely comprehensive \(nearly 1,200-page\) summary](#) of the budget bill on the LFB website.

5. IWF ISSUES REPORT ON NEW SUBSIDIES FOR MERCURY MARINE

The Institute for Wisconsin's Future issued a report Tuesday titled "The Twisted Saga of Mercury Marine." Late this summer, after Mercury Marine threatened to move much of its operations to Oklahoma, it managed to extract significant concessions from union workers, a \$50 million loan from Fond du Lac County, and \$3 million from the city covered by a newly imposed local sales tax.

The [IWF report](#) questions whether the deal was a win for Wisconsin, and it challenges the premise that Mercury Marine was an example of a Wisconsin manufacturing concern cutting costs to survive in bad economic times pitted against a recalcitrant union and punitive state tax laws. The report contains new disclosures about Mercury Marine (a part of the Brunswick Corporation) and why the drama between the company and its unionized workers occurred. It also includes previously undisclosed information on Mercury Marine's tax history in Wisconsin.

A Sept. 17 column in the Racine Journal Times also raises questions about the rescue package for Mercury Marine.

http://www.journaltimes.com/news/opinion/editorial/article_00064cd0-a408-11de-a3c1-001cc4c03286.html

6. FEDERAL ESTATE TAX DEBATE SPLITS CONSERVATIVES

In his first year in the White House, President Bush pushed through legislation that steadily phased out the federal estate tax, before completely eliminating it in 2010. But to artificially hold the 10-year cost of that legislation within the deficit-constraining parameters set by Congress, the bill had the estate tax return in 2011 at its earlier level. Now as we approach 2010, action on the estate tax issue would seem to be a very high priority, since liberals are very concerned about the prospects of letting it expire next year and conservatives are alarmed at the prospect of it returning in full force the following year.

Despite the strong impetus to work out a compromise, little progress has been made toward that end. Democrats have long been divided about how much of estates should be taxed and at what rate. Now a rift has also developed among conservatives.. To the consternation of some conservative groups, the U.S. Chamber of Commerce, the National Federation of Independent Businesses and more than 40 other organizations that claim to represent the interests of business have announced that they will no longer push for repeal of the estate tax. They will, however, push for a plan that will very substantially reduce it and that has received some support in the Senate. For more on the dispute between conservative groups, see this [Sept. 29 Bloomberg report](#).

Right now it appears unlikely that any compromise that is worked out will retain the portion of current federal law that would allow states in 2011 to once again have state "pick up" taxes, which are state level estate taxes that are offset against federal estate tax liability (essentially enabling states to pick up a share of the federal revenue without causing a net tax increase). Allowing that former option to once again become law would be a big boost for states but would significantly cut into the federal revenue from the estate tax. Not allowing it to be restored will add about \$200 million to Wisconsin's structural deficit in the next biennium because the LFB's deficit estimate assumes that the Wisconsin's pick-up estate tax (which is still in the state statutes) would again be allowed by federal law in 2011.

Whether the federal estate tax issues actually get resolved this year remains to be seen. One possibility is that the 2009 estate tax law (exempting the first \$3.5 million per decedent and with a maximum 45% rate) is simply extended for a year, giving Congress additional time to reach a long-term compromise. But some lawmakers want to allow a more generous exclusion and set a lower maximum tax rate, and others want nothing short of repeal. Stay tuned.

7. 2008-09 REVENUE FALLS SLIGHTLY SHORT OF MAY ESTIMATES

State general purpose tax revenue collections totaled \$12.1 billion in fiscal year 2009, which was a drop of 7 percent from the more than \$13 billion in General Fund taxes in FY 2008. While that drop is worrisome, it wasn't unexpected. The preliminary FY 2008 tax collection figures issued by the DOR were only about \$2.1 million, or 0.02%, less than the Legislative Fiscal Bureau (LFB) estimated in May.

Coming that close to the estimates was a bit of a relief, considering that many states are now grappling with FY 2010 deficits because of downward revisions in projected tax collections. Wisconsin isn't facing that yet, but it's too soon to say we are out of the woods. The last revenue estimates were made in mid-May, which meant that there was little time for the worsening fiscal conditions to cause revenue to fall short of the projections relied on in the budget bill. But it's very possible that ongoing economic challenges will cause a significant shortfall in the months ahead.

And, as noted in item #2, the cancellation of the tax reciprocity agreement with MN could cause a \$130 million hit to the WI treasury.

A Sept. 1 [Leg. Fiscal Bureau analysis](#) of the new estimates can be found on the LFB website.

8. OTHER REVENUE ISSUES IN THE NEWS

-- "[Public-Sector Jobs Getting Biggest Stimulus Boost](#)" - Oct. 14, Journal Sentinel - "The first solid-if still incomplete-employment numbers for federal stimulus spending by Wisconsin state government show that retaining government positions was job one. Three-fourths of 8,284 stimulus-related jobs accounted for so far were state and local public-sector posts, Gov. Jim Doyle's office reported."

-- "[Here's to a Higher State Beer Tax](#)" - This Oct. 13 editorial in the State Journal says that raising Wisconsin's beer tax, the 3rd lowest in the country, "is the most logical, fair and long-overdue tax increase" related to paying for the costs of tougher drunk driving laws.

-- "[Schools get OK to raise taxes for energy upgrades](#)" - This Oct. 12 Journal Sentinel article reports on the new spending latitude that schools have to increase spending for energy-efficiency improvements. DPI recently issued guidance to schools on the policy change, enacted as part of the biennial budget. School boards now have until Nov. 1 to decide whether they want to new flexibility during the 2009-10 the school year.

-- "[Congress Is Split on Effort to Tax Costly Health Plans](#)" - Oct. 12, NY Times - "A proposed tax on high-cost health insurance plans has touched off a fierce clash between the Senate and the House over how to pay for a health care overhaul."

-- "[Bad budget, funding news for \[Dane\] county social services](#)" - Aug. 28, State Journal - "The county's Department of Human Services submitted its \$233 million budget request to the county executive, \$5 million, or 2.2 percent, more than this year. It sought the same amount of county taxes as last year, \$63.3 million, with the rest coming from state, federal and other sources. But the nonprofit agencies that administer services for the mentally ill, elderly, homeless, substance abusers, developmentally disabled and others learned they face a 3 percent across-the-board cut in their funding. Many of those agencies, including the Mental Health Center of Dane County, have only had to deal with flat funding in previous years."

9. READING ROOM

-- Preliminary report on ARRA spending in WI - Governor Jim [Doyle announced Tuesday](#) that the Wisconsin Office of Recovery and Reinvestment on Saturday filed a comprehensive [report](#) with the federal government detailing Recovery money spent through the state of Wisconsin and what impact these dollars are having in Wisconsin communities. The state's fact sheet indicates that WI oversaw nearly \$680 million in ARRA expenditures during the first reporting quarter. These expenditures are responsible for saving or creating 8,284 full-time jobs, including 6,100 essential public service jobs, such as teachers, police officers and firefighters.

-- "[More states yell cut on film tax credits](#)" - A recent blog post by Good Jobs First reports on the growing numbers of states that are having second thoughts about the wisdom of using generous tax credits to compete with other states to become locations for film production.

-- "[Budget Brief: Milwaukee County 2010 Executive Budget](#)" - This recent report by the Public Policy Forum says the 'day of reckoning' has arrived.

-- "[City Fiscal Conditions in 2009](#)" - A research brief issued in Sept. by the National League of Cities (NLC) reports that many cities are increasing property taxes and fees. A survey conducted by the NLC found that 45% of cities plan to increase fees, 27% are creating new fees, and 25% plan to increase local property taxes in 2009.

-- [Children's budget report released](#) - While federal investments for children have increased over the past five years, the overall percentage of funding for children is decreasing, according to Children's Budget 2009, published recently by First Focus. The report finds that federal allocations for children represent 9.2% of all non-defense spending in 2009, which is down from 10.5% in 2005. The report indicates that children's programs fared well as part of the American Recovery and Reinvestment Act approved earlier this year, with nearly 20% of the overall supports benefiting children's services, including Title I public education, Head Start and Early Head Start and the Child Care Development Block Grant. The full report is available [online](#).

-- [New Online Tool Offers Estimates of Revenue from Taxes on Soft Drinks](#) - In recent years states and localities have begun to consider taxing sugar-sweetened beverages - including sodas, sports drinks, sweetened tea, fruit drinks and punches - in order to generate revenue, reduce consumption of unhealthy beverages and promote public health. In order to help policy-makers and the general public understand the potential revenue that could be generated by such a tax, the Yale University Rudd Center for Food Policy and Obesity has released a Revenue Calculator for Soft Drink Taxes.

-- "[Summary of Act 28 Changes to Combined Reporting Law](#)" - This brief piece by DOR summarizes the changes to the combined reporting law enacted by the budget repair bill (2009 Act 2). Probably of interest only to tax attorneys and very hard core policy wonks.

10. WORKPLACE GIVING TIME - SUPPORT WCCF & COMMUNITY SHARES

Many employers, such as the State of WI, are now holding or will soon begin their annual workplace giving campaigns. Many of those campaigns in southern WI include WCCF - under the umbrella of Community Shares of WI (CSW). Through these campaigns, CSW raises funds for its 51 member nonprofits, all working to build social and economic equity and a healthy environment.

If you value this newsletter or WCCF's other work, we need your help. Please support us and let WCCF know if this newsletter is something we should continue. Remember: that your contributions are TAX DEDUCTIBLE.

If your employer does not offer a workplace giving campaign that includes Community Shares organizations, you can donate online to WCCF from the [Community Shares website](#):

Or you can contribute directly on the following portion of our website:
<https://payments.auctionpay.com/ver3/?id=w043832>
