

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

Revenue Matters -- 2009 Issue # 8

Wisconsin Budget Project -- WCCF
Jon Peacock (jpeacock@wccf.org)
Dec.. 18, 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: Wisconsin has gotten quite a bit of bad fiscal news in the last couple of weeks (see items # 1 through 3), and that news reinforces the need for an extension of the state fiscal relief that played a huge role in protecting jobs by avoiding deeper cuts in state and local budgets.

Also, please keep WCCF in mind as you are making your year-end charitable contributions. (See #9.)

1. State Tax Revenue Down \$231 Million over 4 Months
2. LFB Estimates Large Hole (of up to \$150 million) in Health Care Budget
3. End of Tax Reciprocity to Cost WI about \$78 Million
4. Federal Estate Tax Poised to End Jan. 1, If Senate Doesn't Act
5. A Little Good Fiscal News - Higher than Expected Balance in FY 2009
6. Get the Credit Your Deserve - in English, Spanish & Hmong
7. Pew Report Ranks States' Fiscal Peril, & Generates Controversy
8. Other Revenue Issues in the News
9. Please Make a Tax Deductible Contribution to WCCF

1. STATE TAX REVENUE DOWN \$231 MILLION OVER 4 MONTHS

Tax collection [figures released by the Dept. of Revenue](#) (DOR) a few weeks ago show a decline in state tax revenue of 6.4 percent in the first 4 months of the 2009-10 fiscal year, compared to the same period in 2008-09. That's despite the tax increases enacted in the biennial budget bill, most of which have already taken effect.

Those numbers are worrisome, though it's hard to know what they mean for the full fiscal year because we are working from a comparison to a 4-month period in 2008-09 that had yet to show significant signs of the recession. Also, it's difficult to gauge when some of the income tax increases in the budget bill will really have an effect on revenue. We expect the Legislative Fiscal Bureau to release updated revenue estimates in mid to late January, and probably also estimates of shortfalls caused by increased spending for the growing ranks of low-income Wisconsinites.

November revenue numbers, which ought to provide a few additional clues about where revenues are headed, should be released in the next few days.

In the meantime, one thing we do know is that many other states are reporting substantial deficits for fiscal year 2011, and in some cases new deficits for FY 2010. Even though Wisconsin's unemployment rate has recently been below the national average, it's hard to imagine that the worsening fiscal problems being reported in other states won't be almost as bad in WI. Also, we

know that a couple of other developments discussed below will have adverse effects on state revenue and spending.

2. LFB ESTIMATES LARGE HOLE (of up to \$150 million) IN HEALTH CARE BUDGET

A [Dec. 17th paper by the Legislative Fiscal Bureau](#) estimates that higher-than-anticipated enrollment in BadgerCare Plus is expected to cost the state about \$120 to \$150 million GPR more in 2009-11 than the state expected when it passed the biennial budget bill (\$100 - \$120 million more for BC+ and \$20 - \$25 million more for the Core Plan for childless adults).

Many other states are experiencing the same trends and fiscal strains. Fortunately, states have gotten some relief from the American Recovery and Reinvestment Act (ARRA), which substantially increased the percentage of Medicaid costs borne by the federal government (FMAP). However, the recession has been deeper and is likely to be longer than was anticipated early this year, and states may have to make very deep cuts in Medicaid spending in 2011, if not sooner, if Congress does not extend the increased percentage beyond its scheduled end a year from now.

The House version of the health care reform bill would extend the FMAP increase by 6 months. In addition, the House passed a \$150 billion "jobs" bill on Wednesday which included an extension of state fiscal relief -- partially paid for by using unspent Troubled Asset Relief Program (TARP) funds. However it appears unlikely that the Senate will take up either a jobs bill or the FMAP extension before the end of the year.

3. END OF TAX RECIPROCITY TO COST WI ABOUT \$78 MILLION

Efforts to restore the WI - Minnesota tax reciprocity agreement have not been successful. Although border legislators want to continue negotiations next year, it is too late to revive reciprocity for tax year 2010. As a result, filing taxes will become more complicated for many people who cross the border to work, and WI will take a large budget hit. Over the long run, ending reciprocity yields a modest net increase in revenue for WI, but in the short term it will add significantly to our state's budget problems. An Oct. 9th [memo prepared by the Legislative Fiscal Bureau](#) estimates that WI will suffer a loss in 2009-11 of about \$111 million, although reduced tax collections from the economic downturn reduce that effect in the current biennium to \$77.6 million. *

Governor Tim Pawlenty unilaterally ended his state's tax reciprocity agreement with Wisconsin, as a means of helping to close Minnesota's very substantial budget deficit. Under the former agreement, residents of each state filed taxes where they live, rather than where they work. Wisconsin collects a lot of taxes from people working in Minnesota, but must ultimately pay MN the net difference between what we owe them for border crossing workers and what they owe us for the smaller number of Minnesotans who work in WI. The problem is that there is a long lag period before the payments are made, which means that eliminating the reciprocity agreement and collecting the taxes directly can yield a short-term windfall for Minnesota.

WI recently made a proposal to accelerate the payments and pay interest to Minnesota, but The Pawlenty Administration rejected the compromise.

http://www.winonadailynews.com/news/local/article_7d95eca0-e6d4-11de-812f-001cc4c03286.html

(* For reasons that aren't clear to me, MN officials seem to be using higher estimates of what the cancellation of the deal will yield for their state, or at least that's what the press coverage suggests.)

4. FEDERAL ESTATE TAX POISED TO END JANUARY 1, IF SENATE DOESN'T ACT

The House recently passed a bill extending the federal estate, continuing it at the phased down 2009 level, but preventing it from expiring on January 1, 2010. Without any Congressional action the estate tax would be eliminated in 2010, but would then theoretically come back to life in 2011, at the 2000 level - which predates the gradual phase out initiated by President Bush and the Republican Congress in 2001.

Of course, if the tax is allowed to lapse in 2010, pressure will increase to prevent it from being restored, or to restore it at a lower level than is now in place for 2009. Currently the federal estate tax only applies to estates of more than \$3.5 million (or \$7 million for married couples) - which means that it only applies to one in 500 estates. If it were to expire in January and not be restored, the revenue loss over the 2010-2019 period is estimated to be \$502 billion, without adding the interest cost for increasing the federal deficit.

For more on this topic, see our recent [blog post](#).

See also the [Dec. 17th paper by the Center on Budget and Policy Priorities](#) (CBPP), which explains why some people who inherit farms or businesses would pay more taxes if the estate tax goes away.

5. A LITTLE GOOD FISCAL NEWS - HIGHER THAN EXPECTED BALANCE IN FY'09

Most of the fiscal news over the last couple of months has been pretty depressing, but there was one positive development in the fall, when the Department of Administration's [annual fiscal report](#) noted that the state had a General Fund ending balance of \$89.6 million, about \$19 million more than expected when the budget was prepared.

General Purpose Revenue taxes totaled \$12.11 billion, a decrease of \$930 million (7.1%) from the prior year. GPR spending, excluding fund transfers, was \$12.7 billion, a decrease of \$782 million (5.8%) from the previous year. The report says the decrease reflected spending cuts to GPR appropriations and federal fiscal relief for education and Medicaid programs under the American Recovery and Reinvestment Act (ARRA).

6. GET THE CREDIT YOU DESERVE - IN ENGLISH, SPANISH & HMONG

Each year WCCF updates a one-page brochure that helps educate people about the major refundable tax credits for low-income families -- the federal and state EITC, the state Homestead Tax Credit, and the federal child tax credit. **Please help us get the flyer into the hands of low-income families who could benefit.**

You can find the updated version of the tax year 2009 flyer on our website, and it is available in English, Spanish and Hmong. The English version is at the same URL that we have used in the past:

http://www.wccf.org/pdf/taxcredit_chart_english.pdf

For the Spanish version, go to:

http://www.wccf.org/pdf/taxcredit_chart_spanish.pdf

The Hmong version is at:

http://www.wccf.org/pdf/taxcredit_chart_hmong.pdf

Early this year, as part of EITC Awareness Day, DOR Secretary Roger Ervin and Dept. of Children and Families Secretary Reggie Bicha encouraged state residents to check their eligibility for tax credits aimed at helping low-income workers and families. Their [press release](#) says an estimated 20-25% of WI taxpayers eligible for the EITC do not claim it on their returns.

7. PEW REPORT RANKS STATES' FISCAL PERIL & GENERATES CONTROVERSY

The Pew Center on the States issued a [report](#) on Nov. 12 that compared the degree of fiscal stress in each state last spring. The report put Wisconsin among the 10 states with the greatest fiscal distress - tied with IL for ninth.

Some of the initial political reaction to the report seemed to suggest that Wisconsin's unenviable ranking in the top 10 was an indictment of the state's 2009-11 budget bill. As I explained in a [commentary](#) that (to my surprise) ran as a column in the Nov. 17 Milwaukee Journal Sentinel, the Pew report is not an evaluation of the last budget bill; the measures that it uses to rank states all pre-date the budget and tell us almost nothing about that bill. Instead, it's a comparative assessment of the relative magnitude of the fiscal distress faced by lawmakers last spring as they attempted to adopt balanced budgets.

My comments on the report ran alongside a [critical assessment](#) of the Pew methodology by DOA Secretary Michael Morgan. His critique generated a [response from Pew](#) defending how they measured state fiscal distress.

8. OTHER REVENUE ISSUES IN THE NEWS

-- "[New Report: Wisconsin Taxes Hit Poor and Middle Class Harder than the Wealthy](#)" - Nov. 19, WCCF blog - "Low- and middle-income families in Wisconsin pay a higher share of their income in state and local taxes than do the richest families in Wisconsin, according to a new study by the [Institute on Taxation & Economic Policy](#) (ITEP).

-- "[Not a tax hell, but state still needs better revenue mix](#)" - Dec. 5, Journal Sentinel editorial - "Wisconsin's reputation as a taxpayer money pit may be overblown, [new data uncovered](#) by the Journal Sentinel's Dave Umhoefer indicates. Umhoefer found that at least through 2007, the state's tax bite was a lot less fierce than at any time in recent memory. In comparison to other states, total taxes fell to just above the national average in Wisconsin, and the state relinquished its spot in the dirty dozen of high-tax states. Wisconsin was 15th, and even spending was below the national average."

-- "[U.S. State Revenue Decline Will Go On, Report Says](#)" - Nov. 12, Bloomberg.com - "U.S. states, which are closing \$250 billion of budget deficits, will be forced to grapple with diminished revenue until at least 2012, a survey of fiscal officials found. The only thing that kept states from "draconian" spending cuts has been \$135 billion of funding under President [Barack Obama's](#) economic stimulus package, according to a [report](#) from the National Governors Associations and the National Association of State Budget Officers."

-- "[The Perilous Condition of States, and Why You Should Worry](#)" - Wall Street Journal (blog) - [Gerald F. Seib](#) - Nov 12, 2009

-- "[State announces projected \\$3 billion unemployment insurance fund deficit](#)" - Nov. 12, Daily Cardinal

9. PLEASE MAKE A TAX DEDUCTIBLE CONTRIBUTION TO WCCF

It's that time of year to do a little tax planning, including making contributions that will be deducted when you file your taxes next year. As you do so, please consider a gift to WCCF.

If you value this newsletter and the work WCCF is doing to help find ways to fill the huge hole in the state budget, we could really use your help in filling the hole in the WCCF budget. You can contribute on the following portion of our website:

<https://payments.auctionpay.com/ver3/?id=w043832>
