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Revenue Matters -- 2010 Issue # 1

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: The US Senate is expected to take up a bill next week extending unemployment insurance benefits. That bill might be the vehicle for an amendment to extend federal Medicaid increases, which provide state fiscal relief (see item # 1), and an amendment may be offered by more conservative lawmakers to use that bill to permanently reduce the estate tax (item # 4).

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1. GOVERNORS CALL FOR FISCAL RELIEF; SENATE COULD ACT NEXT WEEK

A bipartisan group of 43 governors has asked Congress to extend the emergency federal funding for Medicaid that is set to expire at the end of the year. A six-month extension of that increase in the federal Medicaid Assistance percentage or match rate, known as FMAP, would produce about a \$300 million savings for WI, which could help avoid deeper cuts in Medicaid and other parts of the state budget.

Many Democrats have been working to get the FMAP extension included in a jobs bill that may be considered in Congress next week. The resolution of the issue is a very pressing concern for governors and state legislatures, particularly those in states that are now working on budget bills that close deep budget deficits. Many governors of both parties have proposed budget bills that are assuming an extension of the increased federal support for Medicaid. (Curiously, Governor Pawlenty of MN is among the governors counting on receiving that federal relief, yet he declined to sign onto the letter.)

Medicaid enrollment in WI and across the country has soared during the recession, as laid-off workers lose their employer-sponsored benefits. [A Feb. 18 report by the Kaiser Family Foundation](#) says that the Medicaid rolls climbed by 7.5% nationally from June 2008 to June 2009, the highest increase since the late 1960s when the program was just getting started. Wisconsin's Medicaid enrollment grew by 16.5% from 2008 to 2009 - the third highest rate of increase in the country - thanks to the recession and to BadgerCare Plus.

The FMAP extension has been approved in the House on a couple of occasions, but passage in the Senate has been much more challenging. The most likely vehicle for the measure is a jobs bill expected to be voted on in the Senate next week, which would extend many other federal laws, including certain expiring tax credits, unemployment benefits, and tax subsidies for people who purchase COBRA health insurance. However, [as CQ Politics reported yesterday](#), finding a couple of GOP votes to advance such a bill in the Senate is proving to be problematic, and it could get intertwined with the estate tax issue (see item #4).

2. BAD FISCAL NEWS THAT COULD HAVE BEEN FAR WORSE

In late January the Legislative Fiscal Bureau issued its [reestimate of revenue collections and spending](#) in the 2009-11 biennium. Although the LFB said the state's closing balance is expected to be almost \$220 million less than previously anticipated, I breathed a sigh of relief. I was anticipating a sharper decline in tax revenue that would push the projected budget balance into the red. The January projection keeps the budget barely in the black, and it appears - at least for now - that the Governor won't have to submit a budget repair bill.

Although the news is better than I expected, there is still plenty of fiscal pain ahead - in both the long and the short run. The main reason that the LFB's revisions don't put the state in the red is a veto that the Governor made in the biennial budget, which had the effect of restoring a requirement for agencies to find an additional \$200 million to lapse to the General Fund. We will probably learn soon where state agencies are going to find that \$200 million.

Looking ahead to the next biennium, the state's structural deficit has grown and will present a mammoth fiscal challenge in the next biennium. We'll take a look at that topic in the next newsletter.

A [WCCF blog](#) discusses the new revenue and spending estimates in more detail and provides a link to the LFB paper.

3. WCCF ANALYSIS PROVIDES COUNTY-LEVEL DATA ON MORE THAN \$2 BILLION OF DIRECT RECOVERY ACT BENEFITS IN WI

Last week marked the first anniversary of the American Recovery and Reinvestment Act, known as ARRA. Debate about the bill typically focuses on the provisions intended to create new jobs or protect existing ones, such as grants for infrastructure spending. However, there are also other ways in which ARRA has been pumping money into the economy, and among the most effective of those has been the tax credits and other federal relief provided directly to Americans, in the form of broad tax credits and improved benefits for low income or recently unemployed workers.

The Center on Budget and Policy Priorities estimates that 5 forms of direct fiscal relief yielded more than \$2 billion for WI residents during the period Feb. 2009 to Jan. 2010. Those 5 (which exclude some significant sources for which the data is currently lacking) are:

- the new Making Work Pay tax credit for workers - \$852 million;
- additional weeks of jobless benefits for the long-term unemployed - \$599 million;
- an additional \$25 per week of jobless benefits - \$261 million;
- increased FoodShare benefits; and
- a one-time "Economic Recovery Payment" to many elderly people, veterans and people with disabilities - \$254 million.

WCCF took the CBPP figures and developed county-by-county estimates of how much money each of those 5 types of direct assistance has delivered to county residents. You can find the

Dane County numbers, for example, in this Feb. 17 article in the State Journal: "[Independent analysis says federal stimulus brought \\$2 billion to Wisconsin](#)"

For all the county level data, see the table we posted on our website: "[Recovery Act Direct Assistance in Wisconsin - Estimates by County.](#)" WCCF's press release can be found on our website at: "[Recovery Act Provided \\$2 billion in Direct Benefits for State Residents.](#)"

4. GONE TODAY, HERE TOMORROW?? - THE FEDERAL ESTATE TAX MESS

The US Senate has yet to take up a House-passed bill that would extend the federal estate tax at the 2009 level. That inaction allowed the tax to expire on January 1, although the estate tax is scheduled to come back in 2011, at the higher level of a decade ago. In the meantime, many people inheriting estates will be worse off because the demise of the federal estate tax means that the appreciated value of the assets they inherit is no longer exempt from capital gains taxes.

Since doing nothing isn't popular with anyone and pushes the federal budget deeper into the red, and since people inheriting farms and small business will often owe capital gains taxes on inherited assets that were previously tax exempt, Senate leaders have been trying to find the votes for a bill extending the tax for a year (which could be retroactive to January 1). However, backers of extending the tax at the 2009 level don't have 60 votes; nor do the more conservative senators who want to significantly reduce the tax.

It's beginning to look like the impasse might not be resolved this year, although some conservative lawmakers are threatening to block the jobs bill in the Senate next week unless it includes an amendment restoring and permanently reducing the estate tax. [A brief issued today by United for a Fair Economy](#) raises expresses alarm about the possibility that the extension of unemployment benefits would be held hostage for a measure to raise the estate tax threshold above the current \$7 million (per couple) exemption.

A [New York Times editorial](#) on Dec. 28th provides a good explanation of the tax "mess" that has resulted because of the expiration of the estate tax and the unintended consequences.

5. OREGON VOTERS APPROVE TAX INCREASES

On late January, voters in Oregon went to the polls and voted to back the legislature's decision in June of last year to raise taxes on businesses and the wealthy to help close the state's large budget gap. By a substantial margin, they approved Measure 66 - which will raise income tax rates for married filers with incomes over \$250,000 - and Measure 67 - which will overhaul the state's corporate minimum tax and create a new top corporate income tax rate.

To read more, see this [synopsis by Citizens for Tax Justice](#), or read the [January 26 article in the Oregonian](#).

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 last 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 said an estimated 20-25% of WI taxpayers eligible for the EITC do not claim it on their returns.

7. WI BEGINS ADVANCE EARNED INCOME CREDIT

One of the goals of the Earned Income Tax Credit (EITC) is to make work pay for low-wage workers. To help achieve that policy objective, federal law has long permitted people eligible for the federal EITC to have a portion of it added to their paycheck. However, the same has not been true for Wisconsin's EITC. A provision in the 2009-11 budget (Act 28) changed that.

WI now allows a full-year legal resident of Wisconsin to request that his or her employer add to his or her paycheck a Wisconsin advance EITC. The amount of the WI advance payment is a percentage of the federal advance EITC. As in the case of the state's regular EITC, the amount is based on the anticipated number of qualifying children of the individual (4% of the federal advance payment for one child, 14% for two children, and 43% for three or more children).

Individuals who want to claim WI advance EITC must file Form WT-5 with their employers. That form (the *Wisconsin Earned Income Credit Advance Payment Certificate*) and instructions are available at <http://www.revenue.wi.gov/forms/with/index.html>.

For more information, see this post on the DOR website:

<http://www.revenue.wi.gov/taxpro/news/090820.html>

8. OTHER REVENUE ISSUES IN THE NEWS

-- "[When pensions factored, Wisconsin's budget not quite as bad](#)" - Feb. 22, Tomah Journal editorial - "It has been widely reported that Wisconsin has one of the worst budget situations in the nation. Those reports left out a big variable: pensions for public employees. The Pew Center on the States reported last week that Wisconsin was one of just five states that began the recession with a fully funded pension system. That leaves Wisconsin in much better shape than the 45 states with funding gaps."

-- "[Senate backs Roth IRA bill](#)" - Feb. 16, Journal Sentinel - "Wisconsinites of all income levels could convert traditional individual retirement accounts to a Roth IRA without penalty under a bill the state Senate unanimously approved Tuesday. Now, only Wisconsin residents who earn less than \$100,000 annually can make the conversion without penalties. ...The Assembly is expected to vote on the measure soon. ...**The bill will save taxpayers money but reduce state tax collections by \$73.9 million for the two-year budget cycle that begins in mid-2011.**

-- "[Property tax increases drive few elderly to move out of their homes](#)" - Jan 7, UW press release - "Few elderly homeowners are forced to move from their homes because of property tax increases, according to a [new study](#) from a UW-Madison public affairs researcher and economists at the Wisconsin Department of Revenue."

-- "[Property assessment reform looms](#)" - Jan. 2, Journal Sentinel - "The amount of property taxes needed to help finance local government isn't the only explanation for your tax bill's bottom

line this year. Your property assessment - the value assigned by the local assessor - is the other big determining factor. ...Officials have drafted legislation that would consolidate the assessment job in the hands of 72 counties. It would require assessments to be updated each year to full market value, with a Department of Revenue annual audit. It would require more assessor training and would automate assessment records so property owners, assessors or anyone could access the assessment information on any parcel in the state."

-- "[Sorry, Shoppers, but Why Can't Amazon Collect More Tax?](#)" - Dec. 26, 2009, NY Times editorial

-- "[Congress throws estate plans in disarray](#)" - This Dec. 19 article in Forbes approaches the estate tax issue from a different perspective than the NY Times editorial referenced in item #4, but makes an equally persuasive case that taking no action will cause many problems, including protracted litigation. For example, there is legal uncertainty about how to interpret wills that were carefully designed to take maximum advantage of the amount of estates exempted from taxes, and also because of the likelihood of legal challenges to the constitutionality of retroactively restoring the estate tax.

9. READING ROOM

-- "[Recovery Act Has Preserved or Created Up to 2.1 Million Jobs, CBO Finds](#)" - Feb. 25, CBPP - "A new Congressional Budget Office (CBO) report estimates that the American Recovery and Reinvestment Act (ARRA) had preserved or created between 1 million and 2.1 million jobs as of December."

-- "[A Critical Review of Property Tax Relief in Wisconsin: The School Levy Credit and the First Dollar Credit](#)" - Andrew Reschovsky / *La Follette School Working Paper No. 2010-003* - Wisconsin's school levy credit and first dollar credit are an expensive and highly inefficient means of providing property tax relief to Wisconsin taxpayers, this analysis suggests. In fact, they provide relatively little relief to homeowners and renters facing the highest property tax burdens.

-- "[Do Rising Property taxes Lead the Elderly to Move from their Homes?](#)" - Rebecca Boldt, Bradley Caruth, and Andrew Reschovsky / *La Follette School Working Paper No. 2009-026* - This preliminary study finds that few of Wisconsin's elderly homeowners are forced to move from their homes because of property tax increases. Given that Wisconsin's property taxes are high compared to those in other states, these findings suggest that property taxes throughout the country have little effect on people's decisions to move, especially among older adults.

-- "[Tax Rate for Richest 400 Taxpayers Plummeted in Recent Decades, Even as Their Pre-Tax Incomes Skyrocketed](#)" - According to this Feb. 23 report by the Center on Budget and Policy Priorities (CBPP), "the effective federal income tax rate for the 400 taxpayers with the very highest incomes has declined by nearly half over the past two decades, even as their pre-tax incomes have grown five times larger, new IRS data show. The top 400 households paid 16.6 percent of their income in federal individual income taxes in 2007, down from 30 percent in 1995. This decline works out to a tax cut of \$46 million per filer in 2007, or a total of \$18 billion in tax cuts for these households per year."

-- "[A Balanced Approach to Closing State Deficits](#)" - This Feb. 16 report by the Center on Budget and Policy Priorities recommends a balanced approach to balancing budgets, including both spending cuts and tax increases. The recommendations include finding efficiencies that can reduce spending, reexamining tax expenditures (business tax credits, etc.), improving collection of taxes owed, and targeted tax increases.
