

## POLICY BRIEF

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### Invest Resources to Collect Taxes Owed

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Wisconsin should devote additional resources to collecting taxes owed to the state that have not been paid. Increasing the amount of money and staff devoted to enforcing state tax laws would both increase the amount of revenue available to fund vital public services and reduce the unfair burden on citizens who already pay the taxes they legally owe. Wisconsin has taken some initial steps to reduce the tax gap, but should take additional action.

Wisconsin's annual tax gap, defined as the difference between the amount of tax owed and the amount voluntarily paid, was \$1.6 billion in fiscal year 2009, according to a report by the Institute for Wisconsin's Future (IWF). Enforcement activity recovered about \$400 million, leaving a net tax gap of \$1.2 billion, or about 10 percent of General Purpose Revenue taxes collected. To put that in perspective, \$1.2 billion is about one-quarter of what the state spends on public primary and secondary education each year.

About 47 percent of the gross tax gap is made up of unpaid individual income tax, and another 33 percent is comprised of unpaid sales tax, according to IWF. The remaining tax gap is made up of unpaid corporate income tax, cigarette tax, and underpayment of taxes of all kinds.

#### **The Minnesota Model**

Wisconsin should follow the Minnesota model and invest significant resources in tax enforcement. In contrast to Wisconsin, Minnesota added staff and resources to their Department of Revenue in the early part of this decade. Between fiscal years 2002 and

2009, staffing levels at Minnesota's Department of Revenue staffing grew by 29 percent, while Wisconsin's shrank by 15 percent, according to IWF.

The investment in Minnesota's Department of Revenue paid off. Wisconsin's Gross Domestic Product grew at 82% the rate at which Minnesota's grew, while Wisconsin's tax collections grew only about two-thirds as fast as Minnesota's. Their tax collections grew a lot faster than Wisconsin's overall, but by an even greater margin relative to economic growth. That is, Minnesota did a lot better job than Wisconsin did of capturing the revenue benefits of their state's economic growth. Since adding enhanced enforcement resources, Minnesota has spent about \$100 million on the effort and recovered more than \$900 million through fiscal year 2008.

Wisconsin has taken modest steps towards reducing the tax gap by increasing resources for enforcement. In the 2009-11 budget, the Legislature provided 31.0 additional full-time equivalent positions (FTEs) for enhanced enforcement of current state tax laws. Over this biennium, those additional positions cost about \$11.8 million but were estimated to bring in \$70 million in revenue, with a net increase in \$58.2 million in revenue.

This recent action, though laudable, was relatively small compared to the investment other states such as Minnesota have made in their enforcement agencies, and does not make up for years of cuts to the Department of Revenue's enforcement capability.

## **The Bottom Line**

In the upcoming budget, policymakers should devote additional money and staffing to enforcing state tax laws in order to reduce the tax gap by. Such an investment would pay for itself in additional revenue collection, thereby helping maintain adequate funding of programs important for children and families. Increasing enforcement activity would also help ensure that all taxpayers pay their fair share.