H

see motion #9700

General Fund Taxes

(LFB Budget Summary Document: Page 21)

LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
-	Information Technology Funding (Paper #714)
-	Revenue Field Auditors (Paper #100)
-	Integrated Tax System (Paper #101)
3	Sales Tax Agreements with Direct Marketers (Paper #102)
4	Sales Tax on Interstate Telecommunications That Terminate in This State (Paper #103)
5	Sales Tax on Coin-Operated Laundries (Paper #104)
6	Sales Tax on Telephone Answering Services (Paper #105)
7	Sales Tax on Fabricated Building Units and Manufactured Buildings (Paper #106)
-	Sales Tax on University Food Contracts (Paper #107)
10	Reestimate Funding for the Earned Income Tax Credit (Paper #108)
11	Individual Income Tax Treatment of Nonresidents and Part-Year Residents (Paper #109)
-	Internal Revenue Code Update (Paper #110)
20	Minor Policy and Technical Changes -- Tax Appeals Commission Filing Fee (Paper #111)
-	Tax Amnesty Program (Paper #112) - NOT included in package
15	Utility Tax on Personal Communications Services (Paper #113)
9	Minor Policy and Technical Changes -- Use Tax on Automobiles Used by Dealers (Paper #114)
2	Increase Cigarette Tax (Paper #115)
-	Individual Income Tax -- One-Time Credit (Paper #116) - not including in package
-	Individual Income Tax -- Indexing (Paper #117) - not including in package
13	Development Zones Tax Credits (see Paper #252)
16	Recycling Fund Transfer to General Fund (see Paper #592)

Senator Burke
Representative Jensen

GENERAL FUND TAXES/LITIGATION

Motion:

Move to modify the bill as follows:

a. **SIPD Lawsuit Settlement:**

(1) Create a one-time GPR sum certain appropriation under the Department of Employe Trust Funds (ETF) to pay the costs of the special investment performance dividend (SIPD) lawsuit settlement agreement and provide $215,000,000 GPR in 1997-98 for this purpose. Provide that the appropriation sunset on June 30, 1998.

(2) Increase estimated expenditures from ETF's retired employes benefits supplement sum sufficient appropriation by $2,022,900 GPR in 1997-98 and $2,733,100 GPR in 1998-99 to fund the resumption of supplemental benefits on November 1, 1997, to annuitants retiring before October 1, 1974.

(3) Provide $1,000,000 GPR annually in the Committee's supplemental GPR appropriation for possible release to a new appropriation to be created by separate legislation dealing with additional supplemental payments to certain annuitants who may receive a reduction in their current annuity level as a result of the provisions of the lawsuit settlement.

b. **Information Technology Funding (Paper #714, Alternative 6):** Delete the Governor's recommendation, but provide expenditure authority for existing program revenue appropriations. Also, provide GPR funding for all of the following projects:

	1997-98	1998-99
Current Masterlease		
Milwaukee Refund Inquiry	$16,000	$16,000
PC Hardware and Software	88,800	88,800
Total Masterlease	$104,800	$104,800
IT Projects		
IT Training Center	$3,500	$27,800
Wang to Word	163,400	184,900
Applications Development	25,000	0
IT Migration	300,000	300,000
Forms Production	15,000	2,300
Total IT Projects	$506,900	$515,000
Total	$611,700	$619,800

c. **Revenue Field Auditors (Paper #100)**

Revenue Field Auditors (Alternative 4)

Modify the Governor's recommendation to provide $590,400 GPR in 1997-98 and $658,800 GPR in 1998-99 and 12.0 revenue auditors beginning in 1997-98. Estimate additional general fund revenues of $8,400,000 in 1998-99 due to the additional audit activities. In addition, require DOR to prepare a report for the Committee on the activities of the new auditors, the amount of revenue that was generated by the additional staff and an analysis of the amount that could be generated by further increases to the audit staff. Specify that the report would be due on January 1, 2000.

Individual Income Tax Audit Software (Alternative 1)

Provide $105,000 GPR in 1997-98 and $80,000 GPR in 1998-99 to purchase individual income tax software. Estimate additional general fund revenues of $2 million annually.

d. **Integrated Tax System (Paper #101, Alternative 1):** Provide $1,257,100 GPR in 1997-98 and $203,500 in 1998-99 for DOR to contract with a private vendor to develop and implement an integrated tax processing system in the Department. Place the funding in the Joint Committee on Finance's supplemental appropriation. Require the Department to submit a plan for development of an integrated tax system to the Committee for its approval before the funding can be released from the Committee's appropriation.

e. **Sales Tax Agreements With Direct Marketers (Paper #102, Alternative 2a and 2b):** Adopt the Governor's recommendation with the following modifications: (a) remove specific references to tax collections and quarterly payments. This alternative would provide broader authority for DOR to enter into agreements with direct marketers about state and local sales and use taxes; and (b) specify that DOR could not implement any sales and use tax agreement if the terms of the agreement do not conform to state law.

f. **Sales Tax on Coin-Operated Laundries (Paper #104, Alternative 3):** Maintain current law.

g. **Sales Tax on Telephone Answering Services (Paper #105, Alternative 3):** Adopt the Governor's recommendation with modifications to: (a) impose the sales tax on services that consist of "recording telecommunications messages" rather than "taking messages by telephone"; (b) delete the portion of the bill that would impose the tax on services that consist of recording messages for a particular person into a central computer data base and activating those messages for that person when the computer is accessed for the messages; (c) specify that the exclusion for services that are incidental to another service would apply only if the other service is not taxable; and (d) provide a cross reference to clarify that the current definition of "incidental" under the sales tax statutes would apply to this provision. A specific exclusion for burglar alarm and security monitoring services would not be provided. This option would increase revenues by $1,100,000 in 1997-98 and $1,500,000 in 1998-99.

h. **Sales Tax on Fabricated Building Units and Manufactured Buildings (Paper #106, Alternative 1):** Adopt the Governor's recommendation to modify the definition of real property construction activities and to allow retailers of certain manufactured buildings to exclude a portion of the gross receipts and sales price of such buildings from the sales tax. Specifically, the retailer would have the option to exclude either: (a) 35% of the gross receipts or sales price; or (b) an amount equal to the gross receipts or sales price minus the cost of the materials that become an ingredient or component part of the building.

In addition, reestimate the fiscal effect to be a revenue loss of $830,000 in 1997-98 and $1,130,000 in 1998-99. These amounts exceed the decrease estimated in the bill by $130,000 in the first year and $230,000 in the second year.

i. **Sales Tax on University Food Contracts (Paper #107, Alternative 2):** Modify the current sales tax exemption for meals, food, food products and beverages furnished in accordance with any contract or agreement by a public or private institution of higher education to provide the exemption only if these items are furnished for purposes that are consistent with the institution's educational mission. In addition, provide that the exemption could not be used for purchases of meals by faculty members and specify that this provision would take effect on the day after publication of the bill, and first apply to contracts entered into on or after that date. This alternative would increase sales tax revenues by a minimal amount in 1997-98 and an estimated $100,000 in 1998-99.

j. **Reestimate Funding for the Earned Income Tax Credit (Paper #108, Reestimate):** Reestimate funding for the earned income tax credit at $78.7 million in 1997-98 and $88.2 million in 1998-99. These amounts exceed the base funding level by $21,700,000 in the first year and $31,200,000 in the second year. Compared to the bill, the revised estimates would increase funding by $3,200,000 in 1997-98 and $200,000 in 1998-99.

k. **Individual Income Tax Treatment of Nonresidents and Part-Year Residents (Paper #109, Alternative 2):** Delete the bill provision and adopt DOR's recommendation to prorate the income tax brackets for nonresident and part-year resident taxpayers, based on the ratio of Wisconsin AGI to federal AGI, effective January 1, 1997.

l. **Internal Revenue Code Update (Paper #110, Alternative 1):** Adopt the provisions requested by the Department of Revenue to update state tax references to the federal Internal Revenue Code in effect as of December 31, 1996. In addition, repeal the current statutory provisions regarding the state medical savings account program.

m. **Minor Policy and Technical Changes -- Tax Appeals Commission Filing Fee (Paper #111, Reestimate):** Increase GPR-Earned by $9,500 annually for Tax Appeals Commission filing fees.

n. **Utility Tax on Personal Communications Services (Paper #113, Alternatives 1 and 2):** Adopt the Governor's recommendation to specify that the transitional adjustment fee would be imposed on persons that provide commercial mobile service (as defined by federal law) with a modification to specify that only persons licensed by the FCC to provide commercial mobile service would be subject to the transition fee.

Adopt the modification requested by the Department of Revenue to specify that, if an interexchange company also provides commercial mobile service, the revenues used to calculate the transition fee would be limited to the person's activities as a commercial mobile service provider.

o. **Revised Definition of Cellular Mobile Radio Telecommunications Utility**: Modify the current definition of a cellular mobile radio telecommunications utility ["a person authorized by the Federal Communications Commission to provide domestic cellular radio telecommunications service under 47 USC 154(i)"] to newly specify that such a utility would be a person authorized by the Federal Communications Commission to provide domestic commercial cellular radio telecommunications service under 47 USC 154(i).

p. **Minor Policy and Technical Changes -- Use Tax on Automobiles Used by Dealers (Paper #114, Modification):** Define "actively participates" for purposes of this provision to mean the sole proprietor, partner, subchapter S shareholder, or LLC member performs services for the motor vehicle dealership, such as sales, accounting, management and consulting, for more than 500 hours in a taxable year for which such person receives compensation. "Actively participate" would not include services performed only in the capacity of an investor such as studying and reviewing financial statements or reports on operation of the business, preparing or compiling summaries or analyses of finances of the business for the investor's own use, or monitoring the finances or operations of the activity in a non-managerial capacity.

In addition, modify the language to read "day-to-day" rather than "daily" operation of the dealership.

q. **Increase Cigarette Tax (Paper #115):** Increase the cigarette tax rate by an additional 11¢ from the Governor's recommendation. The total tax rate would be 60¢ per pack effective on the first day of the second month after publication of the budget act or September 1, 1997, whichever is earlier.

r. **Cigarette Discount Rate**: Reduce the manufacturers' and distributors' cigarette stamp discount percentage from 2.0% to 1.6% effective September 1, 1997.

s. **Individual Income Tax -- Long-Term Care Insurance Deduction**: Create an income tax deduction for premium costs paid by taxpayers for long-term care insurance beginning in tax year 1998. Prohibit the premium costs for long-term insurance from being included as an itemized deduction for purposes of calculating the itemized deduction tax credit.

t. **Credit for Sales Tax on Fuel and Electricity Used in Manufacturing**: Provide, for tax years beginning on or after January 1, 1998, the tax credit for sales taxes on fuel and electricity used in manufacturing under the individual income tax to allow owners, partners and shareholders of businesses organized as sole proprietorships, partnerships, and tax-option corporations, respectively, to claim the credit. Require shareholders in tax-option corporations and partners to claim the credit in proportion to the ownership interest of each shareholder or partner. Require the tax-option corporation or partnership to calculate the amount of credit which could be claimed by each shareholder or partner and provide that information to the individual. Provide that the credit could only be claimed against the tax imposed on the business operations of the claimant in which the fuel and electricity are consumed and, for shareholders and partners, the credit could only be claimed against their pro-rated share of income. Provide that, if the credit is not offset against income tax liability for the current year, the owner, partner or shareholder of the business may carry forward the remaining credit for up to 15 years to offset future tax liability.

u. **Supplement to Federal Historic Rehabilitation Credit**: Provide that qualified rehabilitation expenditures would be eligible for the state supplement to the federal historic rehabilitation credit if either the physical work of construction or destruction in preparation for construction begins after December 31, 1988.

v. **Tax Administration**: Modify the Governor's recommendation to provide $590,400 GPR in 1997-98 and $658,800 GPR in 1998-99 and 12.0 revenue auditors (instead of 5.0 positions) beginning in 1997-98. Estimate additional general fund revenues of $8,400,000 in 1998-99 due to the additional audit activities (instead of $3,500,000). In addition, require DOR to prepare a report for the Committee on the activities of the new auditors, the amount of revenue that was generated by the additional staff and an analysis of the amount that could be generated by further increases to the audit staff. Specify that the report would be due on January 1, 2000.

Provide $105,000 GPR in 1997-98 and $80,000 GPR in 1998-99 to purchase individual income tax software.

Provide $1,257,100 GPR in 1997-98 and $203,500 in 1998-99 for DOR to contract with a private vendor to develop and implement an integrated tax processing system in the Department. Place the funding in the Joint Committee on Finance's supplemental appropriation. Require the Department to submit a plan for development of an integrated tax system to the Committee for its approval before the funding can be released from the Committee's appropriation.

Increase the funding for the Department of Revenue by $26,200 GPR in 1997-98 and $1,096,700 GPR in 1998-99 for computer hardware and software to implement the Department's information technology migration (IT) plan.

w. **Adopt Federal Regulations for Single-Owner Entities and Impose Restrictions on Withdrawals from LLCs by Certain Members:**

Single-Owner Entities. Move to adopt federal regulations that allow single-owner entities to be disregarded as a separate entity for federal income tax purposes to be disregarded for state tax purposes, unless the entity elects to be taxed as a corporation. Specify that the owner would be subject to the tax on the entity's income. Provide that if a partnership is the owner of a disregarded single-owner entity, the entity's information would be included on the owner's statement that is required to be filed with the Department of Revenue (DOR).

Provide that, for withholding purposes, the owner, not the entity, would be the "employer" in a single-owner entity that is disregarded as a separate entity under the internal revenue code (IRC).

Specify that, for purposes of a business registration certificate under the Tax Appeals Commission provisions, the person is the owner in the case of a single-owner entity that is disregarded as a separate entity under the IRC. Provide that "person" includes the owner of a single-owner entity that is disregarded as a separate entity under the IRC under the sales and use tax provisions. Specify that, for purposes of the sales tax return that is required to be filed by a seller, if a single-owner entity is disregarded as a separate entity under the IRC, the information from that entity would be included on its owner's return.

Specify that a single-owner entity that is disregarded as a separate entity for state income and franchise tax purposes, would be disregarded as a separate entity for purposes of the temporary recycling surcharge. Provide that the information from that entity be included in computing the surcharge on the owner's return. Include an entity treated as a partnership under the IRC under the definition of partnership for purposes of the temporary recycling surcharge and alcohol beverages tax.

Define partnership, for state income and franchise tax purposes, to include limited liability companies (LLCs) and other entities that are treated as partnerships under the IRC. Specify that partnership does not include publicly traded partnerships treated as corporations for state corporate tax purposes. Modify the definition of corporation to include any other entities treated as corporations under the classification election regulations of the IRC. Specify that a single-owner entity that is disregarded as a separate entity under the IRC would be disregarded as a separate entity for state corporate tax purposes and its owner would be subject to tax on the entity's income.

LLC Gift Memberships. Specify that if an LLC member acquired an interest for no or nominal consideration, the member may withdraw from the LLC only in accordance with the operating agreement and only at the time or upon the occurrence of an event specified in the operating agreement. Provide that if the operating agreement does not specify such time or event, the member may not withdraw, prior to dissolution and commencement of winding up, without the written consent of all members of the LLC.

Specify that these provisions would take effect beginning with taxable years on or after January 1, 1997.

x. **Miscellaneous Tax Provisions**: Create an exemption from the sales and use tax for medicines furnished without charge to a physician, surgeon, nurse anesthetist, advance practice nurse, osteopath, dentist, podiatrist or optometrist if the medicine may not be dispensed without a prescription. Specify that the exemption would take effect on the first day of the second month beginning after publication of the bill.

Create a sales and use tax exemption for raw materials used for the processing, fabricating or manufacture of, or the attachment to or incorporation into, printed materials that are transported and used solely outside the state. Repeal the current provision which excludes from the definition of taxable "storage" keeping, retaining or exercising any right or power over raw materials by a publisher or printer of printed materials for processing or fabricating or for manufacturing into, attachment to or incorporation into printed materials to be transported, and thereafter used solely, outside this state. Specify that these provisions would take effect on the first day of the second month beginning after publication of the bill.

y. **Exclusion for Capital Gains on Business Assets Sold to Family Members**: Provide a complete exclusion for long-term capital gains realized on the sale of business assets and assets used in farming to a family member that were held for more than one year, including gains on property used in the ordinary course of business as defined under the internal revenue code, effective January 1, 1999. Provide that farm assets would include shares in a corporation or trust that meets the same standards that currently allow a corporation or trust to carry on farming operations in the state. Specify that an eligible family member would include a person who is related by blood, marriage or adoption within the 3rd degree of kinship. Provide that amounts treated as ordinary income for federal tax purposes because of the recapture of depreciation or for any other reason would not be included in this provision. Specify that the capital gains exclusion under this provision would be applied after all capital gains and losses have been netted.

z. **Working Families Tax Credit**: Create a nonrefundable credit equal to a taxpayer's net tax liability for taxpayers with adjusted gross income up to $18,000 if married-joint and $9,000 if single or married-separate, effective with tax year 1998. Provide that the credit would phase out over the next $1,000 of income. Specify that only full-year resident taxpayers and taxpayers who can not be claimed as a dependent on another taxpayer's return would be eligible for the credit.

aa. **Delay School Aid Payment:** Delay payment of $50 million of general equalization aids in 1997-98 to the fourth Monday in July of the following year on a permanent basis, which would be reflected in the four quarterly payments to school districts. Specify that school districts would record this July aid payment as if it were received in the prior fiscal year.

Note:

The following table outlines the biennial fiscal estimates for these provisions compared to the bill. The figures for the increased cigarette tax are compared to the 52.5¢ tax rate already adopted by the Committee.

MO# 9700 (all)

1	JENSEN	Y	N	A
	OURADA	Y	N	A
	HARSDORF	Y	N	A
	ALBERS	Y	N	A
	GARD	Y	N	A
	KAUFERT	Y	N	A
	LINTON	Y	N	A
	COGGS	Y	N	A
2	BURKE	Y	N	A
	DECKER	Y	N	A
	GEORGE	Y	N	A
	JAUCH	Y	N	A
	WINEKE	Y	N	A
	SHIBILSKI	Y	N	A
	COWLES	Y	N	A
	PANZER	Y	N	A

AYE 11 NO 5 ABS ____

Department of Revenue		
Information Technology	$1,370,700	GPR
	-440,100	GPR-REV
	-1,455,100	PR
	1.50	GPR FTE
	-2.50	PR FTE
Field Auditors	728,900	GPR
	4,900,000	GPR-REV
	7.00	GPR FTE
Audit Software	185,000	GPR
	4,000,000	GPR-REV
Integrated Tax System	1,460,600	GPR
Information Technology Migration	1,122,900	GPR
General Fund Taxes		
Taxation of Interstate Telecommunications	1,800,000	GPR-REV
Sales Tax on Self-Service Laundries	-5,100,000	GPR-REV
Sales Tax on Telephone Answering Services	2,600,000	GPR-REV
Sales Tax on Fabricated Buildings	-360,000	GPR-REV
Sales Tax on University Food Contracts	100,000	GPR-REV
Reestimate EITC	3,400,000	GPR
Income Tax: Nonresident and Part-Year Residents	6,700,000	GPR-REV
IRC Update	-6,000,000	GPR-REV
Tax Appeals Commission Filing Fee	19,000	GPR-REV
Increase Cigarette Tax to $.60 Per Pack	56,900,000	GPR-REV
	2,800,000	GPR
Cigarette Distributor's Discount	1,900,000	GPR-REV
Long-Term Care Insurance Deduction	-3,000,000	GPR-REV
Working Families Tax Credit	-25,300,000	GPR-REV
Historic Rehabilitation Credit	-176,400	GPR-REV
Credit for Sales Tax on Manufacturing Electricity	-1,800,000	GPR-REV
Sales Tax Exemption for Samples of Drugs to Physicians	-530,000	GPR-REV
Sales Tax for Raw Materials Used in Printing	-800,000	GPR-REV
Pension Litigation		
Payment of Pension Litigation	215,000,000	GPR
Shift of School Equalization Aids Payment	-50,000,000	GPR
ETF Annuity Payments	6,756,000	GPR
TOTALS	$182,824,100	GPR
	35,412,500	GPR-REV
	-1,455,100	PR
	8.50	GPR-FTE
	-2.50	PR-FTE

Senator Wineke

GENERAL FUND TAXES/LITIGATION

Motion:

Move to delete the following items from motion #9700.

Department of Revenue		
Information Technology	$1,370,700	GPR
	-440,100	GPR-REV
Integrated Tax System	1,460,600	GPR
Information Technology Migration	1,122,900	GPR
General Fund Taxes		
IRC Update	-6,000,000	GPR-REV
Long-Term Care Insurance Deduction	-3,000,000	GPR-REV
Working Families Tax Credit	-25,300,000	GPR-REV
Credit for Sales Tax on Manufacturing Electricity	-1,800,000	GPR-REV
Sales Tax Exemption for Samples of Drugs to Physicians	-530,000	GPR-REV
Sales Tax for Raw Materials Used in Printing	-800,000	GPR-REV
Pension Litigation		
Shift of School Equalization Aids Payment	-50,000,000	GPR
Other	8,000,000	GPR-REV

In addition, increase the cigarette tax to 62¢ effective July 1, 1998, and transfer, on a one-time basis, $25 million of 1997-98 school aid payments to July 1, 1998.

MO# 9703

	JENSEN	Y	~~N~~	A
	OURADA	Y	~~N~~	A
	HARSDORF	Y	~~N~~	A
	ALBERS	Y	~~N~~	A
	GARD	Y	~~N~~	A
	KAUFERT	Y	~~N~~	A
	LINTON	Y	~~N~~	A
	COGGS	Y	~~N~~	A
	BURKE	Y	~~N~~	A
	DECKER	Y	~~N~~	A
2	GEORGE	~~Y~~	N	A
	JAUCH	Y	~~N~~	A
1	WINEKE	~~Y~~	N	A
	SHIBILSKI	Y	~~N~~	A
	COWLES	~~Y~~	N	A
	PANZER	Y	~~N~~	A

AYE 3 NO 13 ABS ____

Motion #9703

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Information Technology Funding (Revenue -- Tax Administration)

[LFB Summary: Page 513, #5; Page 515, #8; Page 519, #17]

CURRENT LAW

Base level funding in 1997-98 for information technology infrastructure is $556,800 GPR, $274,100 PR and $35,100 SEG. In addition, 1997-98 base funding of $100,000 SEG and 2.0 SEG positions is provided for administration of the Lottery.

GOVERNOR

Provide expenditure authority of $714,100 PR in 1997-98 and $683,900 PR in 1998-99 to fund information technology (IT) expenditures. A separate, program revenue appropriation would be created to fund expenditures on technology for tax collection, tax administration, state and local finance responsibilities, and expenditures for which general purpose revenues would otherwise be necessary. The source of revenue for the new IT appropriation would be 75% of the year-end balance in the delinquent tax collection (DTC) administration appropriation and 75% of the year-end balance in the newly-created real estate transfer fee audit appropriation. The new IT appropriation would be the primary source of funding for the Department's additional IT expenditures for the 1997-99 biennium. The total amount transferred to the new IT appropriation would be an estimated $908,800 in 1997-98 and $411,600 in 1998-99. Expenditure authority of $611,700 in 1997-98 and $619,800 in 1998-99 would be provided from the new IT appropriation. The remaining funding of $102,400 in 1997-98 and $64,100 in 1998-99 for information technology would be provided from existing appropriations.

DISCUSSION POINTS

Real Estate Transfer Return Audits

1. As noted, one source of program revenue for the IT appropriation would be funds from a new real estate transfer fee audit appropriation. The bill would provide $106,800 PR in 1997-98 and $116,800 PR in 1998-99 and 2.5 PR positions in each year to convert the funding source for auditing real estate transfer returns from GPR to PR. The action would shift 1.0 revenue auditor and 0.5 program assistant position from GPR to PR and create an additional 1.0 PR revenue auditor position. The positions would be used to audit real estate transfer returns.

A new PR appropriation would be created to fund the audit activities. The source of funding would be amounts attributable to the Department's audit activities less $424,600 and refunded overpayments. In addition, amounts received from sales of information from real estate transfer returns would provide funding for the appropriation. (Current law authorizes the Department to sell information from real estate transfer returns concerning street addresses, sales prices, dates of sales and types of conveyances.) At the end of each fiscal year, 10% of fiscal year expenditures and the amount encumbered during the fiscal year would be retained in the appropriation balance. Of the remaining year-end balance, 75% would be transferred to the new IT program revenue appropriation and 25% would be deposited in the general fund.

Under the bill, it is estimated that the amount that would be transferred to the IT appropriation would be $67,100 in 1997-98 and $140,000 in 1998-99. The estimated deposit to the general fund would be $22,400 in 1997-98 and $46,700 in 1998-99.

2. In fiscal year 1995-96, 225,000 real estate transfer returns were filed, including about 73,000 exempt transactions. The Department has 1.0 revenue auditor permanently involved in auditing returns. Conveyances are selected for audit based on value as well as to verify exempt status. One auditor is able to conduct between 400 to 600 audits a year. Table 1 shows annual audit assessments and collections for the last four fiscal years.

TABLE 1

Real Estate Transfer Fee Audit Collections
(Fiscal Years 1992-93 Through 1995-96)

Fiscal Year	Total Tax, Interest and Penalties	County Share	State Collections
1992-93	$564,600	$113,000	$451,600
1993-94	506,700	102,400	404,300
1994-95	529,600	106,400	423,200
1995-96	527,500	106,100	421,400

3. Under the bill, it is estimated that the additional auditor and program assistant positions along with implementation of scanning of real estate transfer fee returns would generate an annual increase of $212,000 in audit collections. The real estate transfer fee audit appropriation is set up so that $424,600 (the approximate average annual collections for the past four fiscal years) would continue to be deposited in the general fund and the additional revenue generated from the increased audit activities would fund both real estate transfer fee audits and the new IT appropriation.

Assuming that the auditor and support staff would generate additional revenue raises a significant budget issue. Implicitly, this could be interpreted as meaning that additional revenue could consistently be generated by hiring an additional auditor. However, at some point, one would expect that the additional revenue would begin to diminish until the cost of an additional auditor position would exceed the revenue that could be generated by the position. The bill provides $41,400 in full year salary and fringe benefits for the new auditor position.

The estimated additional revenue from the increased audit activities ($212,000) represents a 50% increase over current average audit collections. DOR would argue that this is a reasonable estimate for a number of reasons. Currently, one auditor generates an average of $424,600 from 400 to 600 annual audits. This means that fewer than 1% of real estate transfer returns are audited each year to generate over $400,000 in collections. The additional auditor, clerical position and implementation of scanning are expected to increase the number of audits to range from 2,000 to 2,500. Although this would represent a substantial increase in audits, the number performed would still be only slightly over 1% of total returns. It can be argued that this level of auditing would not exhibit sharply diminishing returns. Therefore, the total number of audits conducted would be at a level which should result in a 50% increase in collections. Similarly, assigning two auditors and a clerical position to audit a tax with about $30 million in annual collections would likely put staffing at level that would generate additional collections that would more than offset additional expenditures. In addition, an estimated $100,000 in program revenue in 1998-99 would be produced from charges for access to and the sale of information from real estate transfer returns.

However, it is possible that additional audit activities would not generate above average collections each year. Total real estate transfer fee collections can fluctuate from year to year. For example, real estate transfer fee collections decreased 5.1% from $29.3 million in 1993-94 to $27.8 million in 1994-95. Similarly, audit collections decreased from $451,600 in 1992-93 to $404,300 in 1993-94. Consequently, in some years, the revenues generated from the audit activities might not be sufficient to fund expenditures from the real estate transfer fee audit appropriation and to provide funds to transfer to the information technology appropriation. Also, there are no specific agreements between DOR and other agencies for access to information from returns. Therefore, estimates of the additional revenue from the sale of real estate transfer fee return information are speculative.

4. As an alternative, the Committee may wish to delete the Governor's recommendation and, instead, fund the positions with GPR. The additional audit collections and any income from the sale of information would be placed in the general fund. This would ensure the positions would be funded even if additional audit assessments and other sales were insufficient. To implement this alternative, program revenue funding for the audit positions and the appropriation for auditing real estate transfer returns would be deleted. In addition, the bill would be modified to provide $37,200 GPR in 1997-98 and $47,200 GPR in 1998-99 and 1.0 GPR position beginning in 1998-99. It is estimated that the additional audit collections would be $212,000 each year and sales of information would generate $100,000 in 1998-99. Under this alternative, there would be no funding directly provided from transfer fee audits for the information technology projects that are included in the bill.

Delinquent Tax Collection System

1. The primary source of program revenue for the recommended IT appropriation is funding that would be transferred from the delinquent tax collection (DTC) administration appropriation. The Department's delinquent tax collection activities are funded from this appropriation. The source of revenue for the appropriation is a delinquent tax fee which is annually assessed to each new delinquent account. The fee is the greater of $35 or 6.5% of delinquent tax liability. (The fee was increased to this level from $25 or 4.5% of the delinquent balance in 1995 Wisconsin Act 27, the 1995-97 budget.) Base level funding of $9,679,300 PR and 158.90 PR positions are provided through the appropriation. The bill would increase expenditure authority to $9,968,500 PR in 1997-98 and $9,970,100 PR in 1998-99 and position authority to 174.0 PR positions in each year.

2. The provisions of the bill would change the delinquent tax collection administrative appropriation from a continuing to an annual appropriation. The appropriation language would be modified to provide that, at the end of each fiscal year, 10% of fiscal year expenditures and the amount encumbered during the fiscal year would be retained in the appropriation balance. Of the remaining year-end balance, 75% would be transferred to the new program revenue appropriation that would be used to fund the Department's information technology expenses and 25% would be deposited in the general fund.

Under the bill, the estimated amount that would be transferred to the new IT appropriation would be $841,700 in 1997-98 and $271,600 in 1998-99. The estimated deposit to the general fund would be $280,500 in 1997-98 and $90,500 in 1998-99.

3. The estimated amounts that would be transferred to the IT appropriation and deposited in the general fund are based on revenues projected for the delinquent tax collection administration appropriation in DOR's budget request. Since that time, the Department has reestimated appropriation revenues for 1996-97, 1997-98 and 1998-99. Table 2 shows projected

revenues, expenditures and the year-end balance in the appropriation using the revenue reestimates and the expenditures (including reserves) authorized in the bill.

TABLE 2

Delinquent Tax System Administration Appropriation

	1997-98	1998-99
Opening Balance	$377,700	$437,100
Revenues	10,183,200	10,692,400
Total	$10,560,900	$11,129,500
Expenditures	$9,968,500	$9,970,100
Reserves	155,300	321,800
Total	$10,123,800	$10,291,900
Balance	$437,100	$837,600

The table shows that the DTC fee collections are estimated to be sufficient to fund all the expenditures from the DTC appropriation that are included in the bill. The estimated year-end balances in the appropriation would be $437,100 in 1997-98 and $837,600 in 1998-99. These balances would not be sufficient to provide a carry-over balance equal to 10% of fiscal year expenditures ($1,012,400 in 1997-98 and $1,029,200 in 1998-99) as is required under the bill. As a result, no funding could be transferred unless the appropriation carryover provisions of the bill were changed. However, such changes would reduce each of the year-end balances below a level that was deemed appropriate under the bill.

4. It could be argued that converting the DTC administration appropriation to an annual appropriation and transferring amounts from the appropriation to fund other activities is an inappropriate use of those funds. The delinquent tax fee and appropriation were specifically implemented to fund the Department's delinquent tax collection activities. The fee was originally set and then increased to a level that was viewed as necessary to fund these activities. Diverting some of the fee revenues to fund other expenditures could create pressure to increase the fee beyond what is reasonable to fund delinquent tax collection activities. At some level, the delinquent tax fee would act as a disincentive to settle delinquent accounts. Moreover, as shown in Table 2, fee revenues are only sufficient to fund ongoing delinquent tax collection activities and provide balances that would be less than 10% of annual expenditures. Finally, it may be argued that the lapse to the general fund is unnecessary since collection activities generate general fund revenues. From this view, the delinquent tax administration appropriation should remain unchanged.

On the other hand, one could argue that funding IT expenditures from delinquent tax fees would be appropriate because the delinquent tax system benefits from the general administrative services provided by the Department. Further, improving the Department's automated systems, such as the word processing system, would benefit delinquent tax collection activities. The IT enhancements would also improve the Department's training center which would provide training services for delinquent tax system (DTS) personnel. From this view, information technology upgrades increase the efficiency of all Department programs. As a result, it is appropriate to charge the Department's programs for those services. Finally, even if revenues transferred to the IT appropriation would be insufficient to fully fund the Department's IT requests, the appropriation establishes a mechanism to convert the funding source for Department IT expenses from GPR to program revenue. If sufficient revenues would be generated during the biennium, the Department could request the additional IT funding under s. 16.515 of the statutes.

5. As noted, based on current revenue estimates, the DTC administration appropriation would not have sufficient year-end balances to provide for carry-over balances equal to 10% of fiscal year expenditures and to transfer funding to the IT appropriation. If the Committee wishes to provide funding for IT expenditures, the appropriation balance carryover provisions could be modified or eliminated. Any number of modifications could be adopted that would transfer amounts to the IT appropriation. However, the only way to fully fund all of the authorized expenses from the IT appropriation in both fiscal years would be to reduce DTC expenses as described below and to transfer the entire year-end balance in the DTC appropriation in each year to the IT appropriation. This would be necessary regardless of the modifications that would be made to the real estate transfer return audit appropriation. Discussion of various modifications to the DTC administrative appropriation is included in the following section concerning funding for IT projects.

Each of these modifications would reduce or eliminate the year-end balances in the appropriation. If actual DTC fee collections are less than projected, total funding for the appropriation could be insufficient to cover authorized expenditures. In addition, the amount of the GPR lapses to the general fund would be reduced or eliminated.

6. One option for increasing the amount transferred from the appropriation to provide funding for IT expenditures would be to reduce the delinquent tax administration expenditures authorized in the bill. The bill includes the following provisions that are related to the delinquent tax administration appropriation:

a. Provide $278,900 and 7.0 PR positions annually to convert 7.0 PR revenue agent project positions to permanent positions. These positions are scheduled to expire on June 25, 1997.

b. Provide $84,300 PR and 2.0 PR positions annually and delete $84,300 GPR and 2.0 GPR positions to convert the funding source for field compliance staff positions.

c. Provide $206,300 PR and 4.4 PR positions annually and delete $206,300 GPR and 4.4 GPR positions to convert the funding source for central compliance staff positions.

7. Conversion of the funding source for the field and central office compliance staff from GPR to the DTC administration appropriation was based on DOR workload analyses that showed that the positions worked exclusively on delinquent tax collection activities. Therefore, it was viewed as appropriate budget practice to fund these positions with the delinquent tax fee. Moreover, the conversions would reduce GPR expenditures.

8. The DTS redesign project was initiated in the 1991-93 biennial budget (1991 Wisconsin Act 39) to: (a) replace an outmoded computer system that did not support modern collection activities; and (b) generate additional revenue by increasing the productivity of revenue agents. Act 39 provided the Department with 4.0 applications development project positions beginning in 1992-93, that were authorized through June 30, 1995. The 1993-95 budget (1993 Wisconsin Act 16) provided an additional 4.0 applications development project positions for the redesign project, also authorized through June 30, 1995. In the 1995-97 budget (1995 Wisconsin Act 27), DOR was authorized 7.0 PR applications development permanent positions to replace the project positions and complete the DTS redesign and to maintain the automated delinquent tax system. However, 7.0 PR revenue agent positions were converted from permanent to project positions and were scheduled to terminate on June 25, 1997. These are the positions that would be converted to permanent positions under the bill.

9. One way to reduce delinquent tax collection appropriation expenditures would be to modify this provision. However, DOR would argue that all of the revenue agent and applications development positions would be necessary to maintain or increase the level of delinquent tax and fee collections and to provide for adequate implementation, support and enhancement of the automated delinquent tax system. The Department maintains that the applications development staff is necessary to complete redesign of the system which is not expected to be completed in all field offices until June 30, 1998. In addition, applications development staff are necessary to modify the computer system in response to frequent law changes. Examples of recent changes include an increase in the delinquent tax fee, electronic filing of tax warrants and satisfactions, and use of collection agencies for resident accounts. By way of comparison, the individual income tax processing system has six permanent applications development staff.

The Department also notes that the revenue agent positions are necessary to generate revenue to fund the delinquent tax appropriation. The average delinquent tax collections are $560,000 for field compliance agents and $1.39 million for central collection agents. Similarly, average delinquent tax fee collections are about $76,000 per field agent and $152,700 for central collection agents. The Department believes that elimination of any of the revenue agent positions would reduce delinquent tax and fee collections.

In its action plan regarding the position conversion, DOR indicates that one alternative would be to convert 4.0 of the revenue agent project positions to permanent positions and also convert 3.0 of the existing applications development positions to revenue agent positions. This would leave 4.0 applications development positions to implement, maintain and enhance the automated delinquent tax system. Under this alternative, $159,500 PR and 4.0 PR positions would be provided to convert 4.0 revenue agent positions from project to permanent positions.

The action plan indicates that this alternative would maintain or increase the level of revenues. However, DOR would argue that, because the applications development staff would be reduced, automated system enhancements may not be made in a timely manner or GPR funding might be needed to fund expenditures related to implementation of significant law changes in the system. The counter argument is that 4.0 applications development staff would be sufficient to implement, maintain and enhance the automated delinquent tax system. Moreover, staffing of 4.0 positions seems adequate when compared to 6.0 for the individual income tax processing system. In 1995-96, income tax collections were approximately $4.2 billion compared to $73 million total delinquent tax collections. Similarly, there are approximately 2.7 million individual income taxfilers compared to 311,700 delinquent accounts. Finally, these modifications could be made with the understanding that if delinquent tax fee collections were sufficient, the Department could request authority for the additional applications development positions under s. 16.515 of the statutes.

It should be noted that reducing the DTC administration appropriation expenditures under this alternative would not generate a balance sufficient to provide a carryover balance of 10% of fiscal year expenditures. As a result, the carryover provisions would also have to be modified.

Information Technology Funding

1. The bill would create a new program revenue appropriation to fund the Department's information technology expenditures. Total expenditure authority of $611,700 PR in 1997-98 and $619,800 PR in 1998-99 would be provided from the appropriation. The source of revenue for the IT appropriation would be estimated transfers of $908,800 in 1997-98 and $411,600 in 1998-99 from the DTC administration appropriation and a new real estate transfer fee audit appropriation. Of the total amount of funding provided under the bill, an estimated $841,700 in 1997-98 and $271,600 in 1998-99 would come from the DTC administration appropriation. The real estate transfer fee audit appropriation would provide an estimated $67,100 in 1997-98 and $140,000 in 1998-99.

2. As is discussed above, because the revenue for the DTC administration appropriation has been reestimated, amounts that could be transferred to the new IT appropriation under the provisions in the bill would not be sufficient to fund all of the authorized IT expenses.

3. The bill would provide additional expenditure authority from the IT appropriation for the following purposes:

a. A total of $387,400 in 1997-98 and $364,100 in 1998-99 would be provided to implement part of the Department's IT migration plan. Of the total expenditure authority for this item, $300,000 annually would be from the IT appropriation; the remaining $87,400 in 1997-98 and $64,100 in 1998-99 would be from other current program revenue appropriations.

b. Funding of $163,400 in 1997-98 and $184,900 in 1998-99 would be provided to convert the Department's current Wang VS 5000 word processing system to a personal computer based local area network (LAN).

c. Funding of $104,800 would be provided annually to fund masterlease payments begun in 1996-97. Of the total, $16,000 would be provided for masterlease payments to implement a refund inquiry system in the Milwaukee district office. The remaining $88,800 would fund masterlease payments to purchase computer hardware and software, including personal computers, printers and network servers, to develop local area networks in two of the Department's divisions that do not have LANs. Fiscal year 1998-99 is the last year of these masterleases.

d. Funding of $40,000 would be provided in 1997-98 to purchase software which would allow DOR applications development staff to perform testing on personal computers to avoid mainframe computer charges. Of the total funding provided, $25,000 would be provided from the IT appropriation and the remaining $15,000 would be from another existing appropriation.

e. A total of $3,500 in 1997-98 and $27,800 in 1998-99 would be provided to purchase equipment, furniture and tools for the Department's computer training facility.

f. Funding of $15,000 in 1997-98 and $2,300 in 1998-99 would be provided to purchase an electronic forms development software package.

4. DOR included a list of decision item priority for GPR funding in its 1997-99 biennial budget request which could be used to establish a funding priority for IT expenditures if revenues in the IT appropriation are insufficient to fund all expenditures authorized in the bill. However, the Department has indicated that the first priority for funding should be the $88,800 and $16,000 annual amounts needed to fund the masterleases. The Department is bound to fund these amounts and will be forced to absorb any unfunded amounts. Based on the biennial budget request, subsequent priority would be as follows: (a) funding for the IT training center; (b) funding to convert the Department's word processing system; (c) funding for applications development testing; (d) funding for the IT migration plan; and (e) funding for forms production software.

5. Expenditure authority of $102,400 PR in 1997-98 and $64,100 PR in 1998-99 is provided for existing appropriations to fund portions of the cost of implementing the Department's IT migration plan and applications development testing on personal computers. The Department indicates that this funding could be used for those purposes without the additional funding that would be provided from the new IT appropriation. Consequently, the Committee may wish to approve this expenditure authority for existing PR appropriations.

Summary and Possible Modifications to Bill

As discussed above, there are several issues related to the Governor's proposal. The primary concern is that funding from the delinquent tax collection appropriation will not be sufficient to cover the Department's current collection activities along with the proposed IT expenditures. In addition, it can be argued that it would be more appropriate to fund the Department's IT costs with general fund revenue than to allocate a portion of the appropriations for delinquent tax collections and real estate transfer fee audits for IT costs.

There are a number of alternative actions the Committee could take concerning funding the Department's IT expenditures. Each could involve a number of modifications to provisions affecting the real estate transfer return audit appropriation, the DTC administration appropriation and the funding source for IT expenditures. The following are possible options:

1. Adopt the Governor's recommendation. Under this option, the only funding that would be available to fund IT expenditures would be an estimated $67,100 in 1997-98 and $140,000 in 1998-99 that would be transferred from the real estate transfer return audit appropriation. These amounts would almost fully fund the current masterlease commitments ($104,800 annually). DOR would have to absorb $37,700 in costs in 1997-98, but 1998-99 costs would be fully funded. Other expenditures could be funded internally with GPR. In this regard, it should be noted that the Department lapsed $363,600 GPR in 1995-96. On an annual basis, this amount could fund all of the expenditures authorized in the bill except for the IT migration and forms production software projects. Also, because the IT appropriation would be a continuing program revenue appropriation, if DTC fee and audit revenue exceeded current estimates to increase the amounts transferred to the IT appropriation, DOR could use that revenue to fund additional IT expenditures. However, based on current estimates, there would not be a lapse to the general fund of $280,500 in 1997-98 and $90,500 in 1998-99, from the DTC administration appropriation. In addition, it would be unlikely that any funding would be transferred from the DTC administration appropriation because the required 10% balance would exceed $1 million each year.

2. Modify the Governor's recommendation to delete the requirement that 10% of fiscal year expenditures remain in the DTC administration appropriation and transfer the entire balance to the IT appropriation. In addition, convert 4.0 rather than 7.0 DTS revenue agent positions from project to permanent positions. These modifications would transfer amounts from

the real estate transfer audit and DTC administration appropriations that would be sufficient to fully fund all the IT expenditures authorized from the IT appropriation. However, the GPR lapse from the DTC administration appropriation would be eliminated. Moreover, if future DTC fee revenues were less than projected, revenues could be insufficient to fund both DTC and IT authorized expenditures.

3. Modify the Governor's recommendation to delete the requirement that 10% of fiscal year expenditures remain in the DTC administration appropriation. Instead, retain $200,000 annually in the appropriation and transfer the remaining balance to the IT appropriation. These modifications would provide an annual balance of $200,000 in the DTC administration appropriation which could be used to offset fluctuations DTC fee revenues. In addition, there would be sufficient funding in the IT appropriation to fund the Department's masterlease commitments as well as the IT training center, Wang to Word conversion and applications development testing projects. Total expenditure authority for these projects would be $296,700 in 1997-98 and $317,500 in 1998-99. Again, other expenditures could be internally funded and the Department could make additional expenditures from the IT appropriation if revenues were sufficient. Under these modifications, the DTC lapse to the general fund would be eliminated. Also, the required balance of $200,000 would represent less than 2% of fiscal year expenditures; in general, appropriations with statutorily set balance amounts require that 10% of fiscal year expenditures be retained.

4. Delete the Governor's recommendation except for IT funding from existing program revenue appropriations. Instead, provide $37,200 GPR in 1997-98 and $47,200 GPR in 1998-99 and 1.0 GPR position for auditing real estate transfer fee returns. Provide that amounts received for the sale of information from real estate transfer fee returns be placed in the general fund. Under these provisions, no changes would be made to the current DTC appropriation. The expenditure and position authority provided in the bill would be included. The bill would be modified to provide an additional position and fund real estate transfer return audit activities with GPR. All revenue from the additional audits and the sale and accessing of return information would be placed in the general fund. Funding for the Department's IT projects could be internally reallocated; as noted the Department lapsed $363,600 GPR in 1995-96.

5. As a final alternative, the Committee could delete the Governor's recommendation, except for the existing program revenue funding, and fund all or some of the Department's IT expenditures with GPR. It could be argued that this would be the appropriate funding source because the IT projects would contribute to the Department's general tax administration activities.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to create a separate program revenue appropriation to fund expenditures on technology for tax collection, tax administration, state and local finance responsibilities, and expenditures for which general purpose revenues would otherwise be necessary. Provide that the source of revenue be funding transferred from the DTC administration appropriation and a new real estate transfer fee audit appropriation. Modify expenditure authority for the IT appropriation to provide $67,100 in 1997-98 and $140,000 in 1998-99 to fund the cost of masterleases.

Alternative 1	GPR	PR
1997-99 REVENUE (Change to Bill)	- $371,000	
1997-99 FUNDING (Change to Bill)		- $1,024,400

2. Modify the Governor's recommendations as indicated in #2 (page 10) above. Also, approve expenditure authority for existing program revenue appropriations.

Alternative 2	GPR	PR
1997-99 REVENUE (Change to Bill)	- $371,000	
1997-99 FUNDING (Change to Bill)		- $238,800
1998-99 POSITIONS (Change to Bill)		- 3.00

3. Modify the Governor's recommendations as indicated in #3 (page 11) above. Also, approve expenditure authority for existing program revenue appropriations.

Alternative 3	GPR	PR
1997-99 REVENUE (Change to Bill)	- $371,000	
1997-99 FUNDING (Change to Bill)		- $617,300

4. Modify the Governor's recommendations as indicated in #4 (page 11) above. Also, approve expenditure authority for existing program revenue appropriations.

Alternative 4	GPR	PR	TOTAL
1997-99 REVENUE (Change to Bill)	$83,900		$83,900
1997-99 FUNDING (Change to Bill)	$223,600	- $1,455,100	- $1,370,700
1998-99 POSITIONS (Change to Bill)	2.50	- 2.50	0.00

5. Delete the Governor's recommendation but provide expenditure authority for existing program revenue appropriations.

Alternative 5	GPR	PR	TOTAL
1997-99 REVENUE (Change to Bill)	- $440,100		- $440,100
1997-99 FUNDING (Change to Bill)	$139,200	- $1,455,100	- $1,315,900
1998-99 POSITIONS (Change to Bill)	1.50	- 2.50	- 1.00

6. Delete the Governor's recommendation, but provide expenditure authority for existing program revenue appropriations. Also, provide GPR funding for some or all of the following projects, which are listed in order of priority as indicated by the Department:

	1997-98	1998-99
Current Masterlease		
Milwaukee Refund Inquiry	$16,000	$16,000
PC Hardware and Software	88,800	88,800
Total Masterlease	$104,800	$104,800
IT Projects		
IT Training Center	$3,500	$27,800
Wang to Word	163,400	184,900
Applications Development	25,000	0
IT Migration	300,000	300,000
Forms Production	15,000	2,300
Total IT Projects	$506,900	$515,000
Total	$611,700	$619,800

Alternative 6	GPR	PR	TOTAL
1997-99 REVENUE (Change to Bill)	- $440,100		- $440,100
1997-99 FUNDING (Change to Bill)	$1,370,700	- $1,455,100	- $84,400
1998-99 POSITIONS (Change to Bill)	1.50	- 2.50	- 1.00

This box reflects the net fiscal effect if all of the IT expenditures are approved.

7. Delete the Governor's recommendation.

Alternative 7	GPR	PR	TOTAL
1997-99 REVENUE (Change to Bill)	- $440,100		- $440,100
1997-99 FUNDING (Change to Bill)	$139,200	- $1,621,600	- $1,482,200
1998-99 POSITIONS (Change to Bill)	1.50	- 2.50	- 1.00

Prepared by: Ron Shanovich

MO#____________________

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE_____ **NO** _____ **ABS**_____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Revenue Field Auditors (General Fund Taxes/Revenue)

[LFB Summary: Page 513, #2]

CURRENT LAW

Base level funding for the Department of Revenue's Audit Bureau is $16,550,000 GPR, $315,000 PR, $988,900 SEG and $51,000 FED for 1997-98. (The FED funding is deleted as a standard budget adjustment for removal of noncontinuing elements.) Base level position authority is 315.10 GPR, 5.75 PR and 17.50 SEG positions.

GOVERNOR

Provide $245,900 GPR in 1997-98 and $274,400 GPR in 1998-99 and 5.0 GPR revenue auditor positions beginning in 1997-98. It is estimated that the increased audit activity that would be associated with the revenue auditor positions and would increase general fund tax revenues by $3,500,000 in 1998-99.

DISCUSSION POINTS

Revenue Field Auditors

1. The Audit Bureau is responsible for auditing individual income, corporation franchise and income, sales and use, withholding, motor vehicle fuel, and excise tax returns. The Bureau also audits homestead, earned income and farmland preservation tax credit returns. Bureau activities include conducting office and field audits and issuing assessments and refunds.

The Audit Bureau, along with the Compliance Bureau, provides direct taxpayer assistance during the tax filing season and conducts informational workshops and meetings for taxpayers. The Audit Bureau's main office is in Madison. District offices are located in Appleton, Eau Claire, Madison and Milwaukee with branch offices in 28 other Wisconsin cities. The Bureau also has four out-of-state offices in New York, Minneapolis, Los Angeles and Chicago.

2. The Audit Bureau has four sections:

Central Audit Section. This section is authorized 111.10 positions, including 97.1 auditor positions. The section is responsible for auditing individual income, corporate franchise and income, partnership, homestead, earned income and farmland preservation returns. Section personnel also provide taxpayer assistance and conduct nonfiler programs.

Field Audit Section. There are 155.75 authorized positions in the section, including 125.85 auditor positions. The section is responsible for conducting field audits of sole proprietorships, partnerships, and corporations for individual income, corporate franchise and income, state and county sales, and withholding taxes. Staff provide technical assistance for office and field auditors, review completed audits, and offer taxpayer assistance.

Excise Tax Section. This section has 23.50 authorized positions, including 15.5 auditor positions. The responsibilities of the section include conducting office and field audits of beverage, cigarette, tobacco products and motor vehicle fuel taxes.

Office Services. The section has position authority for 39.40 positions. Staff primarily perform word processing and clerical functions for the Bureau. In addition, there are 8.6 supervisor and technical specialist positions authorized for the Bureau Director's office.

Although the Bureau is authorized 238 auditor positions, it currently has 115 field auditor and 97 office auditors. The remaining positions provide technical assistance and taxpayer assistance. There were also 10 vacancies in 1995-96. The Department indicates that hiring freezes over the past 10 years have prevented it from bringing the staffing level for auditors up to the number of authorized audit positions.

3. In fiscal year 1995-96, the Bureau conducted 37,717 office audits which resulted in $60.0 million in assessments and $17.6 million in additional tax collections. For the same period, a total of 1,419 field audits led to $78.9 million in assessments which generated $33.7 million in tax collections. Of the total amount of field audit collections, $19.5 million was collected through corporate sales and use tax audits and $12.7 million was collected through corporate income and franchise tax audits.

4. The 5.0 field auditor positions would be hired in the Department's out-of-state offices and would conduct large case franchise and income and sales tax audits of multistate

corporations. The Department generally hires former Internal Revenue Service (IRS) auditors for these offices.

Large case field audits focus on the largest 500+ corporations that have filed Wisconsin returns as identified by staff of the Audit Bureau's Technical Services Unit. The staff are responsible for selecting the cases to be audited. They compile an inventory of the corporations which includes relevant information, such as prior year audit results and, after reviewing the inventory, they identify possible audit cases and check the corporation income and franchise and sales tax returns for each case. The corporations with the largest potential for tax adjustments are selected for audit.

Once a corporation is selected for a large case field audit it is assigned to an audit supervisor who assigns the case to one of his or her auditors based on: (a) the location of the audit; (b) the complexity of the case; and (c) the auditor's experience. Increasingly, Large Case field audits are conducted outside of Wisconsin because many state firms have been acquired by firms that are domiciled outside of the state. Generally, a case is assigned for the most recent four years and often includes both income and franchise and sales and use taxes.

Upon receiving the assigned case, the auditor logs it into his or her inventory control and is responsible for contacting the taxpayer and scheduling an office visit. When notifying the taxpayer the auditor can request information relevant to the audit. The auditor then prepares preliminary workpapers from tax return schedules and identifies potential audit adjustments. The field audit assignment sheet is reviewed for comments regarding potential adjustments or questions.

Field work begins with a conference with the taxpayer so that there is a mutual understanding of what is expected during the course of the audit. The taxpayer is provided with a copy of the Wisconsin Taxpayer Bill of Rights and the list of rights are discussed and explained. The typical large case income and franchise tax audit focuses on (but is not limited to) the following areas of potential adjustments: (a) book to tax income adjustments; (b) intercompany transactions; (c) apportionment computations; (d) manufacturer's sales tax credit; and (e) research facilities and expenses credit. Since the corporate income and franchise tax is federalized, the Department does not focus audits on areas the IRS will review. Instead, the auditor receives audit reports from the IRS. The auditor reviews computations and adjustments made during the audit with the taxpayer.

When the field work is completed, the auditor completes the detailed audit workpapers and prepares a preliminary audit report documenting proposed audit adjustments. The workpapers and audit report are then submitted to the audit supervisor for review. Revisions are made, if necessary, and the proposed audit report is discussed with the corporation's tax personnel at a final meeting. Further revisions can be made as a result of these discussions. The report is then submitted to the supervisor for final review. After the supervisor completes his or her final review, the final audit report and workpapers are sent to large case reviewers for final review and approval. If approved, the report and assessment notice are issued. The typical large case field audit takes at least four months to complete and process.

The logistics and manner in which a large case sales and use tax audit is conducted are similar to those done in a Large Case income and franchise tax audit. Almost all Large Case sales and use tax audits use sampling due to the large number of invoices that would otherwise have to be reviewed. The majority of the audits, and samples, involve use tax examinations where untaxed purchases are reviewed to determine if tax should have been paid. The majority of samples employed in these audits are computer generated statistical samples set up by Bureau staff. As is the case for income and franchise tax audits, auditors follow sales and use tax policies and procedures to assure consistent auditing and application of the tax laws.

5. It is argued that additional auditors are needed to address the increasing number of tax returns that are filed and the increasing complexity of state tax laws. The number of corporate franchise and income tax returns increased 19.8%, from 89,300 to 107,000, between fiscal years 1989-90 and 1995-96. Corporate franchise and income tax collections increased from $437 million to $636 million during the same period. Similarly, the number of sales and use tax returns increased 16.8%, from 1,052,600 to 1,229,500, between fiscal years 1989-90 and 1995-96. Sales and use tax collections grew from $1,984 million in 1989-90 to $2,704 in 1995-96.

While the number of returns and amounts of corporate income and franchise and sales and use taxes have been increasing, the Department has not been provided with additional audit staff for the past 11 years. The Audit Bureau is authorized 238.45 auditor positions; currently there are 97 central office auditors and 115 field auditors. With this level of audit staffing the Department is able to audit between 1% and 2% of all taxpayers in a year. Some would note that additional auditors would provide DOR with more staff to handle the annual increases in tax filers and tax collections. Moreover, the audits that would be conducted by the five additional field auditors would generate an estimated $3.5 million in tax revenues in 1998-99. The increased audit staff would also strengthen the Department's enforcement of tax laws. Since the tax system relies on voluntary compliance by taxpayers to pay taxes owed the state, the increased enforcement activities (audits) would encourage voluntary compliance with tax laws. Finally, audits promote more accurate future returns.

6. To back their argument for additional field auditors, supporters would point to the audit activities of other states. Many other states have recently increased their field auditor staffing levels and neighboring states and states with similar populations generally have a larger number of field auditors than Wisconsin. According to the annual audit survey published by the State Tax Institute in the September, 1995, Sales and Use Tax Alert, 22 states indicated that they had added auditors during the previous five years and nine states indicated that they intended to add auditors in the future. Tables 1 and 2, which are based on data from the survey, show the number of field auditors for neighboring states and for states with a similar population. The tables show that, even with the additional five positions, the field audit staff for Wisconsin would be relatively small when compared with the other states.

TABLE 1

Field Audit Staffing for Neighboring States

State	Number of Field Auditors (1995)	Population (million)
Iowa	68	2.9
Wisconsin	115	5.2
Indiana	166	5.8
Minnesota	225	4.7
Michigan	229	9.6
Illinois	322	11.8

SOURCE: Sales and Use Tax Alert, Annual Audit Survey, State Taxation Institute, September, 1995.

TABLE 2

Field Audit Staffing for States with Comparable Populations

State	Number of Field Auditors (1995)	Population (million)
Wisconsin	115	5.2
Louisiana	131	4.4
Tennessee	208	5.3
Minnesota	225	4.7
Missouri	232	5.4
Washington	235	5.5

SOURCE: Sales and Use Tax Alert, Annual Audit Survey, State Taxation Institute, September, 1995.

7. Opponents would argue that providing additional field auditors would not necessarily generate additional revenues or improve compliance with the tax system. The opponents note that an audit does not always result in additional assessments; often, audits generate refunds. Moreover, audits usually require the taxpayer to provide supporting documents and to participate in meetings with Department staff. As a result, participation in an audit can disrupt the daily activities of the taxpayer. This can cause the taxpayer to resent the enforcement

activities. Rather than creating support, audits can cause a lessening of public support for the tax system.

Audits can also lead to litigation which can be costly to both the state and taxpayer. A recent example would be the case of NCR v. Wisconsin Department of Revenue. The case originated from audit assessments made by DOR beginning in 1981. In part, the assessments related to the treatment of dividends and other intangible investment income received by NCR from foreign subsidiary corporations. NCR objected to the additional assessments and eventually filed with the Wisconsin Tax Appeals Commission for review. The case went before the Commission, the Circuit Court of Dane County and a settlement was reached in September, 1996, with the case before the District IV Court of Appeals. As a result of the settlement, DOR will refund an estimated $38.4 million in taxes and interest between 1997 and 2000. On the other hand, NCR will not contest the inclusion of certain other intangible investment income in taxable income.

8. The bill includes $3.5 million in general fund tax revenues in 1998-99 to reflect the estimated revenue that would be generated by the 5.0 field auditors. The estimate was determined by multiplying the estimated average annual tax collections generated by a field auditor times the five auditors. The average collections per field auditor was calculated by dividing the total amount of annual field audit assessments by the total amount of field auditors and adjusting to reflect the portion of assessments that are collected.

Assuming that each field auditor position would generate additional revenue raises a significant budget issue. As noted, under the bill, each auditor is estimated to generate $700,000 annually, which is the average amount of revenue currently estimated for each field auditor. However, at some level of staffing, the average amount of revenue that could be raised by each auditor would begin to decline until, eventually, the cost of each auditor would exceed the revenue the auditor could generate. Thus, at a certain number of auditors, each additional auditor would raise less revenues until the amount raised would be less than the cost of the auditor position. The bill provides $45,500 for a full year of salary and fringe benefits for each auditor. Annual support costs of approximately $9,300 are also provided.

In reviewing the estimate of $3.5 million in additional revenue attributed to the five auditor positions a number of factors can be considered:

a. Over the past 10 years the number of auditors has not increased while the amount of corporate income and franchise and sales tax returns have increased substantially. Consequently, the number of potential audits is increasing each year.

b. The Department is only able to audit between 1% and 2% of taxpayers. In addition, about 1/3 of the corporations in the large case inventory are annually audited. At this level, it would seem that additional audits would not quickly reach a plateau and begin to generate diminishing returns.

c. The auditors will focus on out-of-state corporations which pay relatively higher taxes. Consequently, the audits should generate higher than average revenues.

d. Wisconsin generally has fewer auditors than neighboring states and states with comparable populations. In addition, many states have recently increased their audit staffs. The experience of other states could be viewed as indicating that the additional auditors would generate additional revenue.

Given these considerations, supporters would argue that the estimated additional revenue attributed to the auditors appear to be reasonable. No additional revenues are estimated in 1997-98 because the new auditors would be involved in training activities for most of that year.

9. It should be noted, however, that total corporate franchise and income tax audit collections have decreased in each of the last two fiscal years, from $28.7 million in 1993-94, to $28.2 million (-1.7%) in 1994-95 and then to $25.2 million (-10.6%) in 1995-96. Although sales and use tax audit collections increased from $59.6 million in 1994-95 to almost $74 million in 1995-96, the 1994-95 amount represented a decrease of about 5.1% from $62.8 million in collections in 1993-94. The decreases in audit collections occurred during a period in which both corporate income and franchise and sales and use taxes were annually increasing. Opponents would argue that these patterns of audit collections indicate that additional audit activity would not necessarily generate additional revenues.

10. According to the state vacancy report for the pay period ending March 29, 1997, the Audit Bureau had seven GPR revenue auditor positions that were vacant for more than a year. The vacant positions included three revenue auditor 1, two revenue auditor 3 and two revenue auditor 5 positions. Current annual funding for salary and fringe benefits for these positions is $269,300. The Governor's recommendation is to provide five revenue auditor 7 positions. The bill would provide funding of $245,900 in 1997-98 and $274,400 in 1998-99 to fund these positions. As an alternative, the Committee could authorize DOR to reclassify five of the vacant positions as revenue auditor 7 positions and to reallocate funding from other vacant revenue auditor positions to partially cover the cost of the upgrade. In addition, funding could be reduced by $23,500 in 1997-98 and $5,100 GPR could be provided in 1998-99 to fully fund the revenue auditor 7 positions. The Department could fill the reclassified positions and generate the additional tax revenue associated with the increased audit activity.

However, the Department indicates that it conducts an annual recruitment and fills its vacant auditor positions each June. As a result, the Audit Bureau only fills its authorized auditor positions once a year. Department staff note that the currently vacant auditor positions will be filled this June. If the Audit Bureau is required to reclassify and reallocate funding from existing positions it will not have sufficient staff to conduct current audit activities. In effect, it would reallocate auditors from current responsibilities to Large Case audits. As a result, revenues from current audit activities will be decreased and offset the increased revenues from the large case audits. The Department would argue that only with the additional auditor positions would additional revenue be generated.

11. The Governor's recommendation is based on an action plan prepared by DOR in which the Department proposed adding 12 field auditors to concentrate on auditing income and franchise and sales and use taxes paid by large and multistate companies. The Department's plan estimated that 12 field auditors would each generate the $700,000 average collections attributed to each field auditor. The estimate was based on the same factors that were used to develop the estimated $3.5 million for the five auditors included in the bill.

The Committee may wish to modify the bill and provide 12 auditors rather than the five included in the bill. This would require total funding of $590,400 in 1997-98 and $658,800 in 1998-99 to cover the cost of the positions and related expenses. If each additional auditor generated $700,000 in collections annually, general fund tax revenues would increase by $8.4 million in 1998-99 and thereafter.

It should be noted that DOR is confident that the additional 12 auditors would each generate $700,000 in collections. However, it is not clear that beyond the level of 12, each auditor would continue to generate this amount. In order to assess the effectiveness of the new audit staff, the Committee could require DOR to prepare a report for the Committee on the activities of the new auditors, the amount of revenue that was generated by the additional staff and an analysis of the amount that could be generated by further increases to the audit staff. The report could be due on January 1, 2000.

Individual Income Tax Audit Software

12. The Department of Revenue has requested spending authority of $105,000 GPR in 1997-98 and $80,000 GPR in 1998-99 to purchase computer software to be used in auditing individual income tax returns. (The $80,000 would be the ongoing cost of using the software.) Recently, the vendor has allowed the Department to use the software for four months and in that time Department auditors have generated an additional $1.0 million in assessments. Although not all additional assessments result in additional collections, it can be reasonably expected that this enhanced capability will generate considerable collections. Assuming that 70% of the additional annual assessments will result in additional tax collections, it is estimated that use of the software would generate an additional $2.0 million annually in audit collections.

The software allows the Department to put three years of state and federal individual income tax and information returns on a personal computer. Auditors can then use the software to select likely audit candidates. The current system requires the Department to conduct tape matches of tax files through a mainframe computer. Computer programmers are needed to perform audits. As a result the software would allow the Department to increase both the number and efficiency of individual income tax audits.

ALTERNATIVES TO BILL

Revenue Field Auditors

1. Approve the Governor's request to provide $245,900 GPR in 1997-98 and $274,400 GPR in 1998-99 and 5.0 revenue auditor positions beginning in 1997-98.

2. Adopt the Governor's recommendation with a modification to require DOR to prepare a report for the Committee on the activities of the new auditors, the amount of revenue that was generated by the additional staff and an analysis of the amount that could be generated by further increases to the audit staff. Specify that the report would be due on January 1, 2000.

3. Delete the Governor's recommendation. Instead authorize DOR to reclassify 5.0 currently vacant revenue auditor positions as revenue auditor 7 positions. Reallocate funding from other vacant revenue auditor positions to cover the costs of the position upgrade. Finally, decrease funding by $23,500 GPR in 1997-98 and provide $5,100 GPR in 1998-99 to fully fund the revenue auditor positions.

Alternative 3	GPR
1997-99 REVENUE (Change to Bill)	- $3,500,000
1997-99 FUNDING (Change to Bill)	- $538,700
1998-99 POSITIONS (Change to Bill)	- 5.00

4. Modify the Governor's recommendation to provide $590,400 GPR in 1997-98 and $658,800 GPR in 1998-99 and 12.0 revenue auditors beginning in 1997-98. Estimate additional general fund revenues of $8,400,000 in 1998-99 due to the additional audit activities. In addition, require DOR to prepare a report for the Committee on the activities of the new auditors, the amount of revenue that was generated by the additional staff and an analysis of the amount that could be generated by further increases to the audit staff. Specify that the report would be due on January 1, 2000.

Alternative 4	GPR
1997-99 REVENUE (Change to Bill)	$4,900,000
1997-99 FUNDING (Change to Bill)	$728,900
1998-99 POSITIONS (Change to Bill)	7.00

5. Delete the Governor's recommendation.

Alternative 5	GPR
1997-99 REVENUE (Change to Bill)	- $3,500,000
1997-99 FUNDING (Change to Bill)	- $520,300
1998-99 POSITIONS (Change to Bill)	- 5.00

Individual Income Tax Audit Software

1. Provide $105,000 GPR in 1997-98 and $80,000 GPR in 1998-99 to purchase individual income tax software.

Alternative 1	GPR
1997-99 REVENUE (Change to Bill)	$4,000,000
1997-99 FUNDING (Change to Bill)	$185,000

2. Maintain current law.

Prepared by: Ron Shanovich

MO#________________

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE_____ NO _____ ABS_____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Integrated Tax System (Revenue -- Tax Administration)

CURRENT LAW

The Department of Revenue (DOR) currently has more than 130 application systems dedicated to tax administration and revenue collection. The Department's major tax systems include: individual income tax; corporate income and franchise tax; sales tax; withholding tax; individual income tax audit; corporate income and franchise tax audit; fuel taxes; beverage taxes; cigarette and tobacco products taxes; stadium tax; exposition center tax; delinquent tax control system; individual income estimated tax; recycling surcharge; partnerships; estate and inheritance; manual refunds; manufacturing assessment; utility taxes; and real estate transfer fee.

GOVERNOR

No provision.

DISCUSSION POINTS

1. Generally, the Department's tax processing systems have been developed to support a specific tax program. Although each of the systems is basically reliable, they are built to stand alone from other tax processing systems. These systems were implemented at various times over the last 30 years using different methods for organizing data and different programming languages and are not designed to be connected in their operations. The systems often have duplicate functions involving registration, tax processing methods and computation,

issuance of refunds and bills, management of estimated payments, audit case activities and appeals.

2. DOR indicates that many of the existing tax processing systems are difficult and expensive to maintain and modify. A number of administrative problems have been identified:

a. DOR staff perform many tasks manually that could be automated. Standard letters frequently must be obtained by a typed request. Adjustments are often made on handwritten worksheets and keyed into the processing system. Thirty different accounting transfers are manually recorded to generate a monthly report. In some cases, staff must retrieve previously filed returns to verify amended returns.

b. The existing systems contain redundant information that is difficult to maintain and update. Under the current systems, it is possible that the Department would maintain a separate record of the name and address of a business owner in the sales tax system, withholding tax system, individual income tax system and the individual income estimated tax system. A separate system was established to process stadium sales tax returns because the state sales tax system could not be modified in time to process stadium tax returns.

c. The same level of taxpayer service cannot be provided from every tax processing system. Some tax returns, such as the individual income tax, allow electronic filing of returns while other systems, such as the sales tax system, require paper returns. Each system independently issues bills and refunds. Response time for taxpayer inquiries varies from system to system.

d. The Department cannot always ensure that all taxes that are due will be paid and deposited in a timely manner. Some current refund processes do not check current refunds against refunds previously issued to detect duplication. Employer withholding deposits are not reconciled to the amount of state withholding shown on employer copies of W-2 forms filed with the state. Sales tax payments not deposited with a return may not be deposited until a bill is generated. Some delinquent tax bills must be manually entered into the delinquent tax system, delaying the commencement of collection activity.

e. DOR staff cannot electronically access all information that is collected by the Department. W-2 information is not available to staff on-line. Certain Department actions are not shown on computer screens that are accessible to all Department staff. In order to determine if audits have occurred that modify a taxpayer's income tax history, an employe must refer to the taxpayer's paper file.

f. Some processing systems are written in out-of-date, unsupported software and use antiquated processes. The sales tax processing system is written in a language that is relatively inflexible and difficult to modify to reflect law changes. Statistical requests from the individual income tax system must be generated by a programmer. The Department has difficulty hiring programmers that are knowledgeable in the language used for the income and sales tax systems. Most systems use batch processing.

g. Applications development staff devote most of their resources to working on existing applications. Staff activities include making modifications to reflect law changes, monitoring systems for accuracy and performance, correcting problems and incorporating enhancements. The Department reallocated staff from the sales tax team and the audit automation project to implement the stadium tax. Modifying the recycling surcharge system caused the Department to delay redesign of the corporate income and franchise tax system for approximately one year.

3. DOR has proposed developing an integrated tax processing system, beginning in fiscal year 1997-98. The integrated tax system would be a tax administration system that would use technology whenever possible to:

a. Assist taxpayers by providing information and returns to voluntarily comply with tax laws.

b. Register taxpayers by establishing a single registration system that would create a taxpayer profile in a departmentwide database. The current business tax registration system would be the foundation for this system.

c. Process returns through an automated system.

d. Manage accounts receivable through a central system that promptly and accurately records payments and outcomes of balance due notices.

e. Process refunds by creating a single automated system that processes overpayments for all tax types in a timely and accurate manner.

f. Audit and investigate taxpayers by creating a single automated system for all tax types, including utility and special taxes, that targets most productive areas for revenue production and compliance.

g. Manage collection cases by developing a single automated system that permits the prompt collection of all delinquent taxes using the lowest level of enforcement necessary. The current delinquent tax system would essentially perform this function.

h. Develop a single automated system that provides statistics and disbursements to internal and external customers for all documents, revenues and refunds.

4. DOR contracted with Grant Thornton to develop an action plan for developing and implementing an integrated tax processing system in the state. The report was completed in October, 1996, and listed a number of alternative actions the Department could take.

5. One alternative would be to continue the current method of developing systems. The Income, Sales and Excise Tax Division is generally organized by function and is gradually moving toward integration. The Department's Strategic Business and Information Technology plan recommends several integration initiatives over a five-year period. In addition, the Department's IT migration plan includes a number of projects, such as providing auditors access to local area networks, that would be part of an integrated tax processing system. The delinquent tax and business tax registration systems provide integrated systems for registering taxpayers and managing collection cases. It could be argued that providing DOR with funding for IT hardware and software would allow the Department to gradually achieve tax processing integration, maintain internal control over the project and limit the cost.

However, the action plan indicates that gradual integration that extends beyond five years is at serious risk of being unsuccessful. Projects with long timelines frequently create situations where current and future development teams cannot wait for an integrated solution. The primary goal becomes project completion or implementation of law changes, not addressing future agency needs. Under the current method of system development, high priority law changes will continue to drive applications development. System improvements will only occur when resources are provided for a specific tax. Current systems will continue to be modified until the complexity makes integration efforts more difficult. Even if the Department does not develop an integrated processing system, it will still need to rewrite the individual income tax system and the sales tax system to eliminate dependence on out-of-date computer languages.

6. A second alternative would be to develop a tax integration system using internal resources. The Delinquent Tax System (DTS) will be fully implemented by June, 1998, while the business tax registration system (BTR) will complete the first phase by January, 1998. Both project teams are aware of the tax integration initiative and have included tax integration as a goal for their projects. These initiatives cover two major functions of a Tax Integration System. The remaining functions could be addressed by dedicated project teams internally, as resources allow. Internal reorganization of the IS&E Division would be required with the specific organizational structure developed as a component of a tax integration plan.

The development of DTS and BTR could continue with some level of oversight to insure conformity with overall integration by function. The audit automation project could be expanded to consider audits for all tax programs. Project teams are already working on a revenue accounting action plan and an action plan for processing refunds. Upon completion of DTS, the existing development ream could be assigned to develop the system to manage accounts receivable. Case management functionality developed for DTS could be used as a basis for developing the audit system. The BTR team, upon completion of their work for permit taxes, would also complete the registration of taxpayers by adding individuals, corporations and partnerships to their business name and address tables. The development of a Sales Tax Processing System could serve as a prototype for processing all other tax types. Eventually an "expert" system could be built to assist taxpayers. Internal development would retain the completed work from BTR and DTS and DOR would have compete control over subsequent development efforts apart from resource levels and other externally driven conflicting priorities. The cost would be funded from existing resources.

Experience has shown that a development project of this scope cannot be completed within five years relaying on internal resources. The Corporation and Withholding System projects each took six years even without law changes or court cases during this period. Moreover, the Department indicates that an integrated tax system could not be developed internally. In addition, the Department needs outside expertise in order to develop and program a system using the best technologies.

7. A third alternative for developing an integrated tax system would be to use a combination of internal and external resources. Under this alternative method, the Department would combine its current integrated systems, such as DTS and business tax registration, with systems development of the remaining functions provided by a private vendor. Applications development staff would work with the vendor to plan, design, develop and implement the integrated processing systems. This would allow the development team to take advantage of the experience of Department staff and would result in a system that would meet the Department's needs. Use of a private vendor would provide the Department with additional staff to develop new applications and expertise in systems development. According to the action plan, this alternative method of implementing integration would most likely lead to a fully operational integrated tax processing system for the sales and individual income taxes within five years, with integration of the other taxes shortly thereafter.

8. The Department has requested $1,257,100 GPR in 1997-98 and $203,500 GPR in 1998-99 to contract with a vendor through a RFP process for assistance in developing a staged implementation of an integrated tax processing system. The funding would be placed in unallotted reserve in the Joint Committee on Finance's supplemental GPR appropriation. The Department would be required to submit a plan for implementation of an integrated tax system to the Committee for its approval before the funding could be released. The Department indicates that it would work with the vendor to develop the following:

a. Requirements definition. The first phase of the project is the definition of system requirements. This involves an analysis and determination of all the functions and features that the system must have.

b. High level systems design and architecture. This is a basic design for the various components of the system and a description of how they fit together and includes a data model which shows how the data are organized and accessed.

c. Implementation plan. The implementation plan defines the logical sequence of steps for constructing the entire system. It identifies what components should be developed first and describes how to phase out old systems as the new system are constructed.

d. Cost/benefit analysis. A detailed cost/benefit analysis would be completed. The costs for each component of the system would be estimated along with the benefits for that component. Both internal cost savings, potential for increased revenue, and benefits for customers would be estimated. The analysis would provide the basis for making decisions, setting project priorities and developing biennial budget requests.

e. Pilot projects. The Department would select a component of the integrated tax system for a pilot project. The pilot project would be conducted during the 1997-99 biennium as a way to demonstrate the new technologies, including new application development tools, and the new architecture that will be used for the project.

9. A major concern related to this proposal is that the Department indicates that it cannot provide estimates the long-run costs associated with the development of an integrated tax processing system. In part, the cost will depend upon services provided by the private vendor under the terms of the contract. According to the Department, there is a chance that the vendor would be willing to fund some of the system development in order to market the components of the system to other states. Another concern would be that providing initial funding would not guarantee that a fully integrated tax processing system will be developed and implemented.

ALTERNATIVES TO BILL

1. Provide $1,257,100 GPR in 1997-98 and $203,500 in 1998-99 for DOR to contract with a private vendor to develop and implement an integrated tax processing system in the Department. Place the funding in the Joint Committee on Finance's supplemental appropriation. Require the Department to submit a plan for development of an integrated tax system to the Committee for its approval before the funding can be released from the Committee's appropriation.

Alternative 1	GPR
1997-99 FUNDING (Change to Bill)	$1,460,600

2. Maintain current law

MO#________________

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE____ NO____ ABS____

Prepared by: Ron Shanovich

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Sales Tax Agreements With Direct Marketers (General Fund Taxes)

[LFB Summary: Page 22, #3]

CURRENT LAW

The state sales tax is imposed on the gross receipts from the sale, lease or rental of tangible personal property and services identified by state law. A companion use tax is imposed on the storage, use or other consumption of property or services purchased from out-of-state retailers if the sale would have been taxable if the property or services had been purchased in Wisconsin. A credit is allowed for sales taxes properly paid in the other state.

The sales and use tax is generally collected through one of the following methods:

a. If the seller has adequate nexus (business connection) with the state, the state can require the seller to collect the tax. This is how the tax is generally collected from in-state retailers. In addition, some out-of-state retailers voluntarily collect the tax on behalf of the state. Under state sales and use tax provisions, nexus is generally established if a seller owns, leases or uses property in the state or maintains personnel or agents in the state for the purpose of selling, delivering or taking orders for taxable goods or services.

b. The sales and use tax can be collected at the time of registration for goods which are subject to state registration, such as automobiles.

c. The tax may be paid voluntarily by the purchaser or collected through audit by state tax authorities. Since 1988, state individual income tax forms have contained a line for reporting and paying sales and use tax on out-of-state purchases.

GOVERNOR

Authorize the Department of Revenue (DOR) to enter into agreements with direct marketers about the collection of state and local sales and use taxes and about making quarterly payments of those taxes.

DISCUSSION

Direct Marketers' Agreement

The budget provision would not impose an additional sales or use tax liability on Wisconsin residents. Rather, it would be an attempt to ensure collection of sales and use taxes that are owed by state residents on purchases from out-of-state direct marketers. Under current law, if a Wisconsin resident purchases taxable merchandise through the mail from a seller located in another state, the sale is considered to have occurred in this state and is subject to the Wisconsin sales tax. However, if the out-of-state seller does not have adequate nexus with this state, the seller cannot be required to collect the tax from the customer and remit the proceeds to DOR.

Wisconsin and 11 other states (California, Florida, Illinois, Iowa, Kansas, Missouri, New Jersey, New York, Ohio, Pennsylvania and Texas) are currently involved in negotiations with the Direct Marketing Association (DMA) concerning a multi-state agreement for the collection of sales and use taxes on catalogue sales. The Federation of Tax Administrators (FTA) and the Multi-State Tax Commission (MTC) are also involved in the discussions, which began in June, 1996.

The agreement would benefit states because additional sales and use tax revenues would be collected on sales by out-of-state sellers. Direct mail retailers would benefit because they would be subject to more uniform reporting and payment requirements. In addition, direct marketers would have greater certainty that states will not subsequently assert that the seller has sufficient nexus with the state and assess the retailer for back taxes on prior sales.

According to the Department of Revenue, it is possible that the parties involved in the negotiations will agree to final terms at the national FTA meeting on May 29, 1997. After that occurs, it will take some time for a final agreement to be entered into by state governors and individual retailers. Therefore, the agreement would likely take effect sometime during the first six months of 1998. However, it is anticipated that some of the larger sellers will collect taxes under the agreement on a pilot basis in Wisconsin this summer.

It is expected that each seller will enter into a separate contract with each of the states in the agreement. Retailers will be required to collect taxes for each of the states participating in agreement; they will not be allowed to exclude certain states. The sellers will generally be required to use the tax base and rates (including local taxes) for each individual state; there will be no uniform tax base or rate. It is anticipated that retailers participating in the agreement will receive the current retailers' discount.

Retailers will probably not be required to collect sales and use tax on shipping and handling charges under the agreement. Under current Wisconsin law, the sales tax is imposed on shipping and handling charges by direct marketers. Under the agreement, the state would no longer tax these charges on sales by companies participating in the agreement, even if the retailer is already collecting the state sales tax because it has nexus with Wisconsin. DOR indicates that this provision is included because most of the states involved in the negotiations do not tax shipping and handling charges. It is likely that subsequent legislation will be introduced to eliminate the sales tax on shipping and handling charges by all retailers, not just those under the agreement.

The agreement will likely have a provision for review after a specified time limit. In addition, states and sellers will be able to opt out, if they provide adequate notice.

Other anticipated provisions of the agreement include: (a) joint audits will be conducted, led by the state in which the retailer's headquarters are located; (b) retailers will be required to file returns and pay taxes on a quarterly basis (in Wisconsin, large sellers currently must report monthly); (c) there will be a uniform sales tax return for all states in the agreement; and (d) electronic filing will be allowed. In addition, retailers may be permitted to transfer responsibility for uncollectible taxes to states in cases where the purchaser paid for the merchandise with a check but did not remit the tax.

Fiscal Effect

The bill estimates that an agreement with direct marketers would result in increased state sales and use tax collections of $6,800,000 in 1997-98 and $29,300,000 in 1998-99. These estimates are based on information from a 1994 study by the Advisory Commission on Intergovernmental Relations (ACIR) on proposed federal legislation regarding the collection of state sales taxes from direct marketers and the following additional assumptions:

• The agreement would take effect on January 1, 1998. It is expected that the agreement would encourage retailers to sign on during the first 12 months of the contract, so that a full year of collections would first be received during calendar year 1999.

• Direct marketers accounting for 80% of mail order sales to Wisconsin residents would enter into the agreement. This is based on an estimate by the Direct Marketing Association, which assumes that a relatively large number of states will participate in the agreement. If few states enter the agreement, the number of retailers participating could be lower.

• Wisconsin would receive additional sales and use taxes on 65% of the sales by marketers entering into the agreement. In other words, it is estimated that the tax is currently collected on 35% of these sales, because the seller has adequate nexus with the state. The 35% estimate is greater than the 28% figure which was used for all states in the ACIR study, because a number of relatively large mail order sellers are located in Wisconsin.

Based on the information available at this time, it appears that the administration's estimates are reasonable. However, two points should be noted regarding these figures. First, because the agreement is not expected to be fully implemented until calendar year 1999, the $29.3 million revenue estimate for the 1998-99 fiscal year understates the annualized impact of the proposal. Based on the assumptions outlined above, the annualized fiscal estimate would be approximately $40 million beginning in 1999-2000.

Second, the amount of revenue generated by the proposed agreement could differ significantly from the budget estimates if actual experience varies from the assumptions described above. According to a fiscal estimate prepared by DOR, the assumed January 1, 1998, effective date may be optimistic. Further, the DMA indicates that Wisconsin and other states are unlikely to receive revenue under the agreement until the 1998-99 fiscal year. It also may be optimistic to assume that retailers accounting for 80% of mail order sales would enter into the agreement.

Modifications to these assumptions could significantly reduce the fiscal estimates. For example, if the effective date were delayed by six months to July 1, 1998, no revenues would be generated in 1997-98 and the estimate for 1998-99 would decrease by $13.8 million, for a biennial reduction of $20.6 million compared to the amounts included in the bill. Similarly, if the participation assumption were decreased from 80% to 70%, the estimates would decline by $0.9 million in the first year and approximately $3.7 million in the second year.

Technical Correction

In an April 22, 1997, letter to the Co-Chairs of the Committee, the Department of Revenue indicated that the budget provision should be modified to make the provision broad enough to cover all aspects of the proposed agreement. As noted, the provision in the bill would allow DOR to enter into agreements with direct marketers about "the collection of state and local sales and use taxes and about making quarterly payments of those taxes." Because the agreement would likely encompass additional tax provisions such as audits and nexus requirements for past periods, the Department indicates that the language in the bill should be modified to eliminate the specific references to sales tax collections and quarterly payments. The Department believes that these references would limit the scope of the agreement.

Additional Statutory Provisions

The provision in the budget bill would simply authorize DOR to enter into agreements with direct marketers. The administration indicates that, once an agreement has been reached, additional statutory changes will be necessary to allow out-of-state retailers to collect and remit taxes under the terms of the agreement. These changes could include reduced nexus, reporting and audit requirements for retailers under the agreement and elimination of the sales tax on shipping and handling charges.

Because additional legislation would be required before the agreement could be implemented, it appears that the Legislature would have an opportunity to review the final terms of the agreement before it is put into effect. However, in order to ensure that the agreement is not structured and implemented in a way that is contrary to state tax provisions, the Committee may wish to modify the budget provision to specify that DOR could not implement the agreement if its terms do not conform to state law. The intent of this change would be to clarify that the budget provision authorizing the Department to enter into sales tax agreements would not authorize DOR to implement such an agreement without the necessary statutory modifications.

ALTERNATIVES TO BILL

1. Adopt the Governor's recommendation to authorize the Department of Revenue to enter into agreements with direct marketers about the collection of state and local sales and use taxes and about making quarterly payments of those taxes.

2. Adopt the Governor's recommendation with the following modifications:

a. Remove specific references to tax collections and quarterly payments. This alternative would provide broader authority for DOR to enter into agreements with direct marketers about state and local sales and use taxes.

b. Specify that DOR could not implement any sales and use tax agreement if the terms of the agreement do not conform to state law.

3. Maintain current law.

Alternative 3	GPR
1997-99 REVENUE (Change to Bill)	- $36,100,000

Prepared by: Rob Reinhardt

MO#________________

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE_____ NO_____ ABS_____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Sales Tax on Interstate Telecommunications That Terminate in This State

[LFB Summary: Page 22, #4]

CURRENT LAW

Under current law, the sales tax is imposed on telecommunications services that originate in this state and are charged to a service address in this state, regardless of the location where the charge is billed or paid.

"Telecommunications services" means sending messages and information transmitted through the use of local, toll and wide-area telephone service; channel services; telegraph services; teletypewriter; computer exchange services; cellular mobile telecommunications services; specialized mobile radio; stationary two-way radio; paging service; or any other form of mobile and portable one-way or two-way communications; or any other transmission of messages or information by electronic or similar means between or among points by wire, cable, fiber optics, laser, microwave, radio, satellite or similar facilities.

"Telecommunications services" does not include sending collect telecommunications that are received outside the state.

GOVERNOR

Impose the sales tax on telecommunications services that either originate or terminate in this state and are charged to a service address in this state, regardless of the location where the charge is billed or paid. This provision would take effect on the first day of the second month beginning after publication of the bill.

DISCUSSION POINTS

1. The budget bill estimates that the Governor's proposal would generate $3,300,000 in 1997-98 and $4,200,000 in 1998-99. The administration indicates that these figures are incorrect and should be increased to $5,200,000 in the first year and $5,400,000 in the second year. These amounts are higher than the budget estimates by $1,900,000 in 1997-98 and $1,200,000 in 1998-99.

The revised estimate for 1997-98 assumes that a full year of collections would be received in that year. However, the new provision would likely take effect on October 1, 1997 (two months after publication). Therefore, the first year estimate should be reduced to $3,900,000 to account for the delayed effective date.

2. In addition to generating state revenue, the budget provision would provide consistent treatment of interstate telephone calls that are billed to a Wisconsin service address. Under current law, such calls are taxable only if they originate in Wisconsin. Under the bill, the tax would also be imposed on calls that originate elsewhere and terminate in Wisconsin.

3. The bill would impose the sales tax primarily on the following types of telephone services: (a) collect calls to a Wisconsin telephone that originate outside this state; (b) calls to a Wisconsin telephone that originate out-of-state and are charged to a service address in this state through the use of a "calling card" or other means; and (c) out-of-state calls to toll-free "800" and "888" numbers in this state.

4. The administration indicates that its intent was to not impose the sales tax on out-of-state phone calls to toll-free numbers in this state. As drafted, such calls would be taxable. Therefore, the administration has proposed a modification to exclude telecommunications services that are obtained by means of a toll-free number, that originate outside this state and that terminate in this state. The fiscal estimates outlined above assume that the tax would not be applied to these phone calls. If they were included, the fiscal estimate would increase by $2,400,000 in 1997-98 and $3,300,000 in 1998-99, assuming an effective date of October 1, 1997.

The administration cites two arguments for its proposal to continue to exempt out-of-state calls to Wisconsin toll-free numbers from taxation. First, it is argued that the exemption is desirable on equity grounds, because calls from Wisconsin residents to toll-free numbers in other states are typically not taxed by the other state. It should be noted, however, that toll-free calls that both originate and terminate in Wisconsin are currently taxable, and would continue to be taxable under the Governor's proposal. Therefore, as under current law, there would be differential treatment of toll-free calls that terminate in this state: the sales tax would be imposed on calls that originate in Wisconsin, but not on calls that originate out-of-state. It can be argued that this situation would also be inequitable. This could be addressed by also providing an exemption for intrastate toll-free calls to Wisconsin locations. However, such an exemption would reduce sales tax revenues by an estimated $3,600,000 in 1997-98 and $5,000,000 in 1998-99.

The second argument in favor of the exemption is that imposing the sales tax on out-of-state calls to toll-free numbers in Wisconsin would place Wisconsin businesses at a competitive disadvantage compared to businesses in other states that do not tax toll-free telephone services. This could be especially significant for firms, such as direct marketers, that make extensive use of toll-free telephone services. As outlined below, most states do not impose sales or excise taxes on interstate telecommunications.

5. The administration also believes that the bill should be modified to allow a credit for taxes paid in the state where the phone call originated. The intent of this provision is to prevent more than one state from imposing the sales tax on the same telephone call and to ensure that the budget provision does not violate constitutional protections regarding interstate commerce. A 1989 U.S. Supreme Court decision (Goldberg v. Sweet) upheld a 5% excise tax imposed by Illinois on interstate telecommunications services, in part, because the Illinois statute avoided the risk of double taxation by providing a credit for taxes paid on services originating in other states. The administration has suggested language that would permit the person remitting the tax (typically the telephone company) to "reduce the amount remitted to this state by an amount equal to the similar tax properly paid to another state on such services or the amount due on services to this state, whichever is less."

Several points should be noted regarding the proposed tax credit:

• The Legislative Reference Bureau (LRB) attorney who drafted the budget provision believes that the credit is not necessary because, under Wisconsin law, the telecommunications services would only be taxed if the charge is billed to a service address in this state. Therefore, it is unlikely that other states would attempt to tax such calls, or even be aware that they occurred. The LRB attorney also indicates that the proposed credit could result in unnecessary administrative efforts to deal with invalid claims. However, it is possible that double taxation could occur if another state attempted to impose a sales or excise tax on interstate calls that are charged to a billing address in that state and to a service address located in Wisconsin. As described below, it appears that no state currently imposes the tax in this manner. Like Wisconsin, the other states that tax interstate telecommunications impose the tax on services that are charged to a service address in the state, regardless of the location where the charge is billed or paid.

• State law currently provides a credit from the use tax for taxes paid to other states. Therefore, it appears that the concern about double taxation raised by the administration may already be addressed under present law. However, the Department points out that the existing credit only applies to the use tax, and that the proposed credit would apply to both the sales and use taxes.

• The proposed credit would allow the telephone company remitting the tax to reduce the amount paid to Wisconsin by an amount equal to any similar tax imposed by another state, but would not specifically require the telephone company to refund the tax back to the Wisconsin customer.

Based on this information, it is difficult to determine whether the proposed credit is necessary. However, in the Goldberg decision, the U.S. Supreme Court specifically cited the Illinois credit as a factor in upholding the constitutionality of that state's tax. Further, it is not clear whether the current use tax credit would be adequate to ensure that the proposed Wisconsin tax would be constitutional. Therefore, the Committee may wish to adopt the proposed credit. If it is determined that the credit should be adopted, the administration's proposal could be modified to require any telephone company or other person receiving the credit to refund the sales tax back to the customer who paid the tax. A similar requirement currently applies to refunds of sales tax to sellers.

6. Most other states do not impose the sales tax on interstate telecommunications services. According to an August, 1996, report by the New York Department of Taxation and Finance, 21 of the 45 states that impose a general sales tax, impose the tax on interstate telephone services.

In addition, a telephone survey of 20 large states conducted in April, 1997, by the Legislative Fiscal Bureau indicates that nine of the states surveyed impose the sales tax on interstate telecommunications. Seven of these states (Florida, Illinois, Massachusetts, Michigan, New Jersey, Ohio and Pennsylvania) impose the tax on services that originate or terminate in the state and are billed to a service address within the state, as under the budget provision. The other two states (Minnesota and Texas) only impose the tax on services that originate in the state and are billed to a service address within the state, as under current law in Wisconsin. Michigan and Ohio provide an exemption for toll-free services; the other seven states that impose the tax on interstate telecommunications do not exempt toll-free services. The remaining 11 states surveyed (California, Colorado, Georgia, Indiana, Iowa, Maine, Maryland, Missouri, New York, North Carolina and Virginia) do not tax interstate telecommunication services.

ALTERNATIVES TO BILL

A. Taxation of Interstate Telecommunications Services

1. Adopt the Governor's recommendation to impose the sales tax on telecommunications services that either originate or terminate in this state and are charged to a service address in this state, regardless of the location where the charge is billed or paid, with a modification to exclude telecommunications services that are obtained by means of a toll-free number, that originate outside this state and that terminate in this state

Reestimate the fiscal effect to be $3,900,000 in 1997-98 and $5,400,000 in 1998-99 to account for the administration's revised estimates and the delayed effective date. These amounts exceed the estimates used in the bill by $600,000 in the first year and $1,200,000 in the second year.

Alternative 1	GPR
1997-99 REVENUE (Change to Bill)	$1,800,000

2. Adopt the Governor's recommendation, as drafted in the bill. This option is the same as Alternative 1 except that toll-free calls that originate outside Wisconsin and terminate in this state would be subject to tax. Compared to current law, this alternative would increase sales tax revenues by an estimated $6,300,000 in 1997-98 and $8,700,000 in 1998-99. These amounts are higher than the estimates used in the bill by $3,000,000 in the first year and $4,500,000 in the second year.

Alternative 2	GPR
1997-99 REVENUE (Change to Bill)	$7,500,000

3. Adopt the Governor's recommendation with a modification to exclude telecommunications services that are obtained by means of a toll-free number and that terminate in this state, regardless of where the services originate. This option is the same as Alternative 1 except that intrastate toll-free calls would no longer be subject to the sales tax.

Compared to current law, this alternative would increase sales tax revenues by an estimated $300,000 in 1997-98 and $400,000 in 1998-99. These amounts are lower than the estimates used in the bill by $3,000,000 in the first year and $3,800,000 in the second year.

Alternative 3	GPR
1997-99 REVENUE (Change to Bill)	- $6,800,000

4. Maintain current law.

Alternative 4	GPR
1997-99 REVENUE (Change to Bill)	- $7,500,000

B. Credit for Taxes Paid to Other States (These options are relevant if Alternative 1, 2 or 3 above is adopted)

1. Provide a credit for sales taxes properly paid to another state on interstate telecommunications services and require any person claiming the credit to refund the sales tax back to the customer who paid the tax.

2. Do not provide the credit.

Prepared by: Rob Reinhardt

MO#________________

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE____ NO ____ ABS____