



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #324

### **Illinois-Wisconsin Reciprocity -- Current Law Sum Sufficient Reestimate (General Fund Taxes -- Income and Franchise Taxes)**

[LFB 2019-21 Budget Summary: Page 143, #17]

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#### **CURRENT LAW**

Under state individual income tax provisions, income may be taxed on the basis of where it is earned or on the basis of the taxpayer's legal residence. Wisconsin, like most other states with an individual income tax, provides a credit for taxes paid to another state while the taxpayer was a Wisconsin resident in order to prevent double taxation of the same income. In addition, reciprocity agreements may be entered into between two states to reduce the filing requirements of persons who live in one state and work in another state. Under such agreements, the taxpayer is only required to file a return and pay taxes on income from personal services in the state of legal residence. Wisconsin currently has income tax reciprocity agreements with four states: Illinois, Indiana, Kentucky, and Michigan.

The reciprocity agreement with Illinois requires a compensation payment when the net foregone tax revenues of one state exceed those of the other state. Historically, Wisconsin has made a payment to Illinois under the agreement because there are more Wisconsin residents who work in Illinois than Illinois residents who work in Wisconsin. The most recent payment was made in December, 2018, and totaled \$93.1 million.

#### **GOVERNOR**

Increase the estimated payment by \$5,078,000 in 2019-20 and \$8,760,000 in 2020-21 under the Illinois-Wisconsin individual income tax reciprocity agreement. Compared to the base funding level of \$92,987,000, payments are estimated at \$98,065,000 in 2019-20 and \$101,747,000 in 2020-21.

## MODIFICATION

Reestimate Wisconsin's payments under the Illinois-Wisconsin income tax reciprocity agreement at \$102,800,000 in 2019-20 and \$102,900,000 in 2020-21. These amounts represent increases of \$4,735,000 in 2019-20 and \$1,153,000 in 2020-21, relative the amounts in the bill. Compared to the base, the reestimate would increase the payment by \$9,813,000 GPR in 2019-20 and \$9,913,000 GPR in 2020-21.

**Explanation:** The reestimates are based on Wisconsin's projected individual income tax collections reported in a memorandum to the Cochairs of the Joint Committee on Finance from this office on May 15, 2019, and Illinois' personal income tax collections reported in the "Revised FY 2020 Revenue Estimate and FY 2019 Revenue Update," released by the Illinois Commission on Government Forecasting and Accountability in May, 2019. The payment amounts represent increases of 10.4% in 2019-20, relative to the actual 2018-19 payment amount, and 0.1% in 2020-21, relative to the 2019-20 reestimate. For the first year's payment, the rate of growth in individual income tax collections is expected to be higher in Illinois than in Wisconsin. However, for the second year's payment, the rate of growth in individual income tax collections is expected to be higher in Wisconsin than in Illinois.

	Change to	
	Base	Bill
GPR	\$19,726,000	\$5,888,000

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