

Informational Paper 79

---

Education and Income Tax Reciprocity Agreements

---

Wisconsin Legislative Fiscal Bureau  
January, 2007



# Education and Income Tax Reciprocity Agreements

Prepared by

Emily Pope and Faith Russell

Wisconsin Legislative Fiscal Bureau  
One East Main, Suite 301  
Madison, WI 53703



# Education and Income Tax Reciprocity Agreements

Wisconsin currently participates in several formal reciprocity agreements with other states under which residents of each state, or region of the state, are treated as residents of the other state for a specific purpose. These agreements relate to higher education tuition, income tax, the transfer of inmates in correctional facilities, admission fees at certain state parks, and fishing licenses.

This paper provides information regarding education and income tax reciprocity agreements. The first section of the paper provides a description of the current agreements for reciprocal tuition for postsecondary education. Information on income tax reciprocity agreements is provided in the second section.

---

## Reciprocity Agreements for Postsecondary Education

---

Wisconsin's reciprocity agreements for postsecondary education are authorized under two separate sections of the statutes. Section 39.42 of the statutes applies to agreements between any publicly-supported, postsecondary institution in Wisconsin and any other state, while s. 39.47 establishes an agreement between Wisconsin and Minnesota. Both sections allow for the waiver of nonresident tuition for participating students.

### Minnesota-Wisconsin Tuition Reciprocity Agreement -- University of Wisconsin System

Under the Minnesota-Wisconsin reciprocity agreement, residents can attend public universities, community colleges, and technical colleges in the adjacent state without having to pay nonresident tuition. Students participating under the agreement are treated as state residents for admission

purposes.

The stated purpose of the agreement is to "continue to improve the postsecondary education advantages of residents of Minnesota and Wisconsin through greater availability and accessibility of postsecondary education opportunities and to achieve improved effectiveness and economy in meeting the postsecondary education needs of Minnesota and Wisconsin residents through cooperative planning efforts."

The agreement is administered jointly by the Minnesota Office of Higher Education (MOHE), formerly the Minnesota Higher Educational Services Office (MHESO), and the Wisconsin Higher Educational Aids Board (HEAB).

### History

Legislation authorizing a tuition reciprocity agreement between Minnesota and Wisconsin was enacted by the Legislature in 1965 and initially included only three UW campuses (La Crosse, Superior and River Falls), seven Minnesota junior colleges, UM-Twin Cities, UM-Duluth, and Winona State. The agreement provided for the transfer of a limited number of students from each state, with the number of students attending individual institutions specified. To be eligible, the student had to be an undergraduate whose legal residence or high school was no more than 40 miles from the institution attended in the other state.

With the creation of the current University of Wisconsin System in 1971, the Legislature authorized HEAB to negotiate tuition reciprocity agreements under Section 39.42 of the statutes and, in 1973, the Legislature authorized separate agreements with Minnesota under Section 39.47 of the statutes. In 1972-73, the restrictions based on student residence and eligible campuses were

eliminated and reciprocity was extended to vocational and technical college students.

In 1974-75, the agreement was revised to include graduate and professional students, including those attending the Minnesota School of Veterinary Medicine, and all restrictions on the number of participating students were lifted. In addition, each state was to determine annually the "net tuition loss" resulting from charging resident rather than nonresident tuition, and the state with the greatest tuition loss would be reimbursed by the other state. The reimbursement did not apply to students enrolled in technical or vocational schools, for which there was no provision for the exchange of funds between the states.

When the agreement was renegotiated for the 1979-80 academic year, a major change was made in the determination of the liability obligation of each state. Since Minnesota's resident tuition had historically been higher than Wisconsin's, it was agreed that the amount a state owed would be based on a formula that reflected actual educational costs rather than the tuition differential. Each state's liability would be the difference between the total amount of tuition paid by its students attending schools in the other state and the calculated cost of educating those students. The state with the higher liability obligation would pay the other state the difference between the two states' liability obligations. This method of calculating liability is still used under the current agreement.

In 1987-88, medical, dental, and veterinary students were excluded from the agreement at Wisconsin's request. Wisconsin made a one-time payment of \$1.1 million to Minnesota to compensate for this change. In April of 1996, the Joint Committee on Finance approved a change in the tuition charged to Wisconsin students attending Minnesota's law school beginning in 1997-98. The change, which was codified in 1997 Act 27, was made at Minnesota's request due to the large difference between the tuition rates charged to Wisconsin and Minnesota residents attending

Minnesota's law school (in 1995-96, Wisconsin students paid \$4,879 while Minnesota residents paid \$7,788). In 1997-98, Wisconsin students attending the law school began paying Minnesota resident tuition.

### **Reciprocity Payments, 1974 to 1998**

Traditionally, Wisconsin students have paid lower tuition rates than their counterparts in Minnesota. As a result, the portion of instructional costs paid by Wisconsin reciprocity students has always been less than that paid by Minnesota reciprocity students, making the amount paid by the state larger. However, while Wisconsin has a larger liability per student, since the establishment of the agreement, a greater number of Minnesota students have studied in Wisconsin than vice versa. Through 1994-95, the high number of Minnesota students studying in Wisconsin more than offset Wisconsin's higher liability per student and resulted in Minnesota making a payment to Wisconsin at the end of each year. This payment peaked in 1978-79, before the 1979-80 changes, and again in 1990-91.

However, since the establishment of the agreement, the number of Wisconsin students studying in Minnesota has grown greatly, outpacing the growth in the number of Minnesota students studying in Wisconsin. As the gap between the number of reciprocity students from each state narrowed, the payment Wisconsin received from Minnesota decreased. Finally, in 1995-96, Wisconsin was required to make a payment to Minnesota for the first time. In that year, the number of Minnesota reciprocity students still exceeded the number of Wisconsin reciprocity students; however, the difference was no longer enough to outweigh Wisconsin's higher liability per student.

### **Renewal in 1998**

Negotiations for the renewal of the agreement began in the fall of 1995 and were carried out by a group of representatives from each state. In

Wisconsin, this group consisted of representatives from the UW System, HEAB, Wisconsin Technical College System (WTCS), and the Department of Administration (DOA).

At the time of renewal, the most significant changes made to the agreement were due in large part to two factors: the comparatively low amount of tuition paid by Wisconsin reciprocity students, especially those attending UM-Twin Cities, and the increasing amount of Wisconsin's liability payment to Minnesota. Since Minnesota resident tuition is generally higher than Wisconsin resident tuition, Wisconsin reciprocity students often paid lower tuition than Minnesota residents attending the same institution. This situation proved awkward for Minnesota and that state sought to increase tuition rates paid by Wisconsin residents to reduce the tuition differential. While Wisconsin had been opposed to such increases in the past, as its liability obligation increased, Wisconsin negotiators became willing to consider higher tuition in order to reduce the state's payment to Minnesota.

Through the negotiation process, the two states agreed to alter how reciprocity tuition rates were defined. Under the previous agreement, the reciprocity tuition rate was defined in the statutes as "the average academic fee that would be charged the student at a comparable public institution of higher education located in his or her state of residence, as specified in the agreement." This was modified to require that the reciprocity tuition charged could not exceed the higher of the resident tuition rates charged at comparable institutions in the two states. This change increased the flexibility of the administering agencies to set reciprocity tuition rates and to address the tuition differential.

In addition, the new agreement did not include an expiration date as past agreements had. Instead, the current agreement is automatically renewed each year unless terminated or modified with the consent of both states. In Wisconsin, any changes to the agreement must be approved by the Joint Committee on Finance.

While the agreement is not a part of Minnesota law, it is statutory in Wisconsin and so the new agreement required a law change. In accordance with Wisconsin statute, the agreement was first approved by the Joint Committee on Finance and then passed into law by the Legislature in 1997 Act 200.

In addition to the above changes, Act 200 also required that an administrative memorandum be prepared by HEAB and MOHE each year and submitted to the Joint Committee on Finance for its approval through a 14-day passive review process. This administrative memorandum establishes policies and procedures for the implementation of the agreement for the upcoming academic year. The administrative memorandum also includes a description of how the reciprocal fee structure is to be determined. Prior to this law change, HEAB and MOHE had prepared an administrative memorandum specifying reciprocity tuition rates annually, but this memorandum was neither statutorily required nor subject to approval by the Joint Committee on Finance or the Legislature.

### **Current Agreement**

Despite the changes made to the agreement in 1998, in general, reciprocity students continue to pay the tuition rate charged at a comparable institution in his or her state of residence. However, the following exceptions to the general reciprocity tuition structure are included in the current administrative memorandum.

***UM-Twin Cities.*** Since 1998-99, Wisconsin residents attending UM-Twin Cities as undergraduates have been charged the UW-Madison undergraduate tuition rate plus a "tuition gap surcharge" equal to 25% of the difference between the resident tuition rates at UM-Twin Cities and UW-Madison. The surcharge was implemented to reduce the difficulties faced by Minnesota due to the tuition differential between UM-Twin Cities and UW-Madison. In addition, since a large percentage of Wisconsin reciprocity students attend UM-Twin Cities, requiring those students to pay a higher

percentage of their instructional costs significantly reduced Wisconsin's total financial liability, and thus, its reciprocity payment to Minnesota. In 2006-07, the difference between the annual resident tuition rates at the two campuses is \$1,588, resulting in a tuition gap surcharge of \$397.

**UM-Morris.** Beginning in 1998-99, Wisconsin residents attending UM-Morris under the agreement pay the UW-Madison tuition rate.

**UW-Eau Claire, UW-Stout and UW-La Crosse.** Minnesota residents attending UW-Eau Claire, UW-Stout, and UW-La Crosse as undergraduates pay the weighted average tuition charged at the Minnesota State University campuses plus the differential tuition rates charged to all undergraduates at each of the UW campuses, provided the total does not exceed the Wisconsin resident undergraduate tuition. The memorandum specifies that if the Minnesota weighted average tuition exceeds the Wisconsin resident tuition rate, only the Minnesota average tuition amount is charged. In 2006-07, the weighted average annual tuition at Minnesota State Universities is \$5,160 while the amount, including differential tuition, charged to Wisconsin residents enrolled at Eau Claire, Stout, and La Crosse does not exceed \$4,800. Therefore, reciprocity students pay the Minnesota rate of \$5,160. Since 2002-03, new students at UW-Stout are charged for tuition on a per-credit basis; new Minnesota reciprocity students at Stout pay the Minnesota State weighted average per credit tuition of \$172.00, which remains higher than the current \$169.58 per credit charged to Wisconsin students at UW-Stout.

**Winona State.** Wisconsin residents attending Winona State University as undergraduates pay the weighted average tuition charged at the Wisconsin comprehensive campuses plus the differential tuition rates charged to all undergraduates at Winona State, provided the total does not exceed the undergraduate tuition charged to Minnesota residents. In 2006-07, Wisconsin reciprocity students pay the UW comprehensive rate plus the Winona State differential, a total

annual tuition of \$6,499. This is less than the amount charged to Minnesota residents, which is \$7,099 in 2006-07.

**Graduate Students.** Since 1998-99, the administrative memorandum has specified that all graduate students enrolled under the reciprocity program at institutions in either state are required to pay the higher of the two states' resident tuition rate. For example, in the 2006-07 academic year, graduate student tuition at UM-Twin Cities and UM-Duluth is higher than at UW-Madison and UW-Milwaukee respectively. Therefore, a Wisconsin resident enrolled as a graduate student at UM-Twin Cities or UM-Duluth in that year pays the same tuition rate as a Minnesota resident. Similarly, the Minnesota State Universities 2006-07 graduate tuition rate is higher than the rate at the Wisconsin comprehensive universities, so both Wisconsin and Minnesota reciprocity students pay the Minnesota tuition rate. Prior to the 1998-99 academic year, the student would have paid the graduate tuition rate at UW-Madison, UW-Milwaukee, or the comprehensive universities.

**Credit Banding.** "Credit banding" refers to the number of credits for which a student must enroll before being charged a flat tuition rate. Currently, undergraduates enrolled for less than 12 credits per semester at UW System institutions pay a per-credit charge while students enrolled for 12 to 18 credits pay a flat tuition amount, except at UW-Stout where all students enrolled since 2002-03 have paid per-credit tuition. However, prior to the 1998-99 academic year, Wisconsin residents attending Minnesota institutions under the reciprocity agreement were not charged the full-time tuition rate until they enrolled for 15 credits. As a result, a Wisconsin resident enrolled for 15 credits at a Minnesota institution paid more in tuition than he or she would have paid as a student enrolled for 15 credits at a UW System institution. Currently, a Wisconsin resident attending a Minnesota institution as an undergraduate is charged the full-time tuition rate when he or she enrolls for 12 credits or more per term.



These exceptions to the general reciprocity tuition structure have served to increase the total tuition paid by Wisconsin residents. This then increased the portion of educational costs paid by Wisconsin reciprocity students and decreased Wisconsin's liability obligation for these students. As a result, Wisconsin was not required to make a payment to Minnesota from 1998-99 through 2000-01.

### **Reciprocity Payments, 2002 to Present**

Wisconsin resumed making reciprocity payments to Minnesota for 2001-02 and, since that time, these payments have grown. While for 2001-02, Wisconsin's reciprocity payment to Minnesota was \$302,741, for 2005-06, it was \$7,770,538. Wisconsin's recent reciprocity payments are the result of two factors: the increase in the number of credits taken by Wisconsin residents at Minnesota institutions, and the decreasing gap between reciprocity tuition and reciprocity cost per credit.

Since 2000-01, the total number of credits taken by Wisconsin residents at Minnesota has increased from approximately 260,300 to 325,000, an increase of almost 25%; during the same period total credits taken by Minnesota students at Wisconsin increased from 364,600 to 375,800, an increase of 3%. This has caused Wisconsin's liability to increase at a faster rate than Minnesota's.

The second factor related to Wisconsin's increased payment to Minnesota is that tuition in both states has grown at a much faster pace than reciprocity costs. From 2001-02 to 2005-06, tuition for Minnesota reciprocity students increased by between 45.5% and 53.4%, depending on the campus, while reciprocity cost has increased by only 3.1% to 15.7%. Meanwhile, Wisconsin per-credit resident tuition has increased between 54.1% and 64.2%. With tuition growing faster than costs, the portion of reciprocity costs paid by students had increased resulting in declines in liability for both states. Indeed, the net cost to Minnesota fell from \$22.8 million in 2000-01 to approximately \$2.5 million in 2005-06. During the same period, Wisconsin's net cost fell from \$20.4 million to \$10.3

million. Because its tuition rates were initially lower, Wisconsin continues to have a larger net cost than Minnesota despite tuition rates increasing at a slightly greater rate.

### **Reciprocity Costs and the Calculation of Liability Obligation**

Under the current agreement, each state's liability is difference between the total amount of tuition paid by its students attending institutions in the other state and the calculated cost of educating those students. The state with the higher liability pays the difference to the other state. In determining liability, the two states have agreed to use what is known as the "reciprocity cost" instead of total educational costs. Reciprocity cost is that portion of total student costs that varies with changes in enrollment and excludes fixed costs. Currently, reciprocity cost is defined as 64% of Wisconsin's total per credit instructional costs. Wisconsin costs are used to calculate liability because it is assumed that instructional costs are similar for both states.

Table 1 shows the per credit instructional cost, reciprocity cost, tuition paid by Minnesota students attending Wisconsin institutions, and Wisconsin resident tuition for 2005-06.

In prior years, when reciprocity cost per credit exceeded reciprocity tuition for all classes of students, the information shown in Table 1 could have easily been used to calculate Wisconsin's liability due to a single Wisconsin student attending a Minnesota institution by subtracting the amount paid in tuition from the reciprocity cost. This method can still be used for all reciprocity graduate students and Minnesota reciprocity students studying at the UW Colleges, for whom reciprocity costs continue to exceed tuition. For example, under the agreement, a Wisconsin graduate student attending UM-Twin Cities in 2005-06 would have paid the higher of the Minnesota and the Wisconsin graduate tuition rates. In that year, Minnesota tuition was higher and so a Wisconsin student would have paid that tuition, equal to \$546.75 per credit as

**Table 1: Tuition Reciprocity Costs and Tuition Per Credit – 2005-06**

Institution Category	Cost Per Credit		Tuition Per Credit	
	Instructional	Reciprocity	Minnesota Reciprocity	Wisconsin Resident
Doctoral Campuses				
Undergraduates				
UW-Madison/UM-Twin Cities	\$346.76	\$221.93	\$297.50	\$234.09
UW-Milwaukee/UM-Duluth	291.17	186.35	298.21	228.93
Graduate Students				
UW-Madison/UW-Twin Cities	1,216.07	778.28	546.75	504.51
UW-Milwaukee/UM-Duluth	1,078.76	690.41	546.75	486.88
Nondoctoral Campuses				
Undergraduate Students	272.35	174.30	199.17	178.21
Graduate Students (UM rate)	624.00	399.36	323.50	312.18
UW-Colleges/MN College System	234.25	149.92	149.00	165.71

shown in the table. The reciprocity cost for one graduate credit was \$778.28 at UM-Twin Cities, which is \$231.53 higher than the tuition paid by the student. Therefore, for a Wisconsin resident graduate student who took one credit at UM-Twin Cities, Wisconsin owed Minnesota \$231.53.

For all undergraduate reciprocity students, with the exception of Minnesota students attending the UW Colleges, the result of the calculation differs. While liability is still determined by subtracting the amount paid in tuition from the reciprocity cost, tuition for these students is now greater than the corresponding reciprocity cost. This excess tuition actually reduces Minnesota's reimbursement obligation to Wisconsin.

For example, a Minnesota undergraduate student who attended UW-Madison in 2005-06 paid the Minnesota reciprocity tuition rate, or \$297.50 for one credit. This exceeded the reciprocity cost per credit at UW-Madison, which was \$221.93 in that year, by \$75.57. Therefore, for a Minnesota resident undergraduate student taking one credit at UW-Madison, Minnesota's overall obligation to Wisconsin would be reduced by \$75.57.

Reciprocity students, except those attending UW-Stout, pay tuition according to a plateau

system, or what has previously been referred to as "credit banding." Under this system, students pay tuition per credit up to 12 credits. After that, a flat tuition rate is charged such that students taking 12 though 18 credits all pay the same rate. However, under the reciprocity agreement, each state is obligated to pay for the total number of credits taken by its reciprocity students, regardless of how many credits any individual student is taking. For example, a Minnesota resident attending UW-River Falls paid a per credit tuition rate of \$199.17 in 2005-06. However, if, for example, the student enrolled in 15 credits in one semester, he or she would have paid \$2,390.04 in tuition, equal to 12 times the per credit rate, under the plateau system. Minnesota, on the other hand, would have been responsible for the payment of the reciprocity cost for each of the 15 credits, or a total of \$2,614.50. Minnesota's liability for the student is calculated by subtracting the tuition paid by the student from the total reciprocity cost associated with the number of credits taken by that student. In this example, Minnesota's liability for this student is \$224.46, even though the per credit tuition paid by the student (\$199.17) is greater than the per credit reciprocity cost (\$174.30).

Table 2 shows enrollments, net costs, and the reciprocity payment for each year from 1994-95 to

**Table 2: MN-WI Reciprocity Enrollment and Payment History**

Academic Year	MN Students Enrolled in WI		WI Students Enrolled in MN		Reciprocity Payment*	Tuition Differential GPR-Earned	Net Effect on GPR Balance
	No.	Net Cost	No.	Net Cost			
1994-95	11,721	\$17,683,273	8,656	\$15,932,604	\$1,750,669	\$4,158,818	\$5,909,487
1995-96	11,731	16,417,266	9,312	16,928,150	-505,159***	4,916,057	4,410,898
1996-97	12,062	15,503,365	9,815	16,811,480	-1,308,114	5,624,555	4,316,441
1997-98	12,614	17,827,062	9,905	19,902,922	-2,075,860	4,192,017	2,116,157
1998-99	13,323	19,528,554	10,390	16,985,058	2,543,496	4,015,391	6,558,887
1999-00	12,191	20,932,068	10,292	18,446,571	2,485,497	2,869,433	5,354,930
2000-01	14,029	22,793,477	10,480	20,362,958	2,430,518	4,905,299	7,335,817
2001-02	13,200	20,592,614	11,074	20,895,356	-302,741	6,535,256	6,232,515
2002-03	14,194	19,200,117	10,489	22,307,744	-3,106,725	8,423,068	5,316,343
2003-04	14,116	10,821,798	11,014	16,984,994	-6,163,196	7,683,385	1,520,189
2004-05	14,085	6,811,842	12,531	13,326,601	-6,514,759	8,204,476	1,689,717
2005-06	14,354**	2,540,213	12,556**	10,310,750	-7,770,538	8,685,989	915,451

\*Payment made to Wisconsin by Minnesota. The reciprocity payment is made in December of the following fiscal year.

\*\*Estimates. Unduplicated headcounts will be available in February, 2007.

\*\*\*The 1995-96 payment was \$510,884, less \$5,725 for a prior year adjustment.

2005-06. Except for 1994-95 and 1998-99 through 2000-01, Wisconsin's net cost, or liability obligation, has been greater than Minnesota's, resulting in payments by Wisconsin to Minnesota. These payments are made from a general purpose revenue (GPR) sum sufficient appropriation established for this purpose.

As shown in Table 1, the amount of tuition paid per credit by Minnesota reciprocity students is often higher than that paid by Wisconsin resident students. Therefore, UW System institutions collect more tuition revenue from Minnesota residents than would otherwise be paid by Wisconsin residents. The University does not retain this additional tuition; instead, Wisconsin law requires that the money be deposited into the state's general fund as a miscellaneous revenue termed "GPR-Earned." The total amount of reciprocity tuition deposited in the state's general fund is shown in Table 2 as "tuition differential GPR-earned."

Finally, Table 2 shows the net effect of the agreement on the GPR balance, which is the sum of the reciprocity payment and the tuition differential GPR-earned. In every year in which Wisconsin has made a reciprocity payment to Minnesota, the payment has been offset by the tuition differential

GPR-earned. As indicated in Table 2, the tuition differential GPR-earned in 2005-06 was \$8,685,989. This offset the reciprocity payment made by Wisconsin so that the net effect on the GPR balance for the tuition reciprocity program was \$915,451.

### **Minnesota-Wisconsin Tuition Reciprocity Agreement -- WTCS**

The Minnesota-Wisconsin reciprocity agreement also applies to Wisconsin's technical colleges. Technical colleges have been included in this agreement since 1972-73. Similar to the portion of the agreement that pertains to university and community college students, reciprocity is state-wide, meaning residents of either state may attend any technical college in the neighboring state. Unlike university and community college students, however, technical college students pay the resident tuition rate charged at the college they attend. Therefore, a Wisconsin resident attending one of the 10 Minnesota technical colleges would pay Minnesota resident tuition, which varies by campus and ranges from \$125.50 to \$140.85 per credit in 2006-07. Similarly, a Minnesota resident attending a Wisconsin Technical College System (WTCS) institution in 2006-07 would pay the resident tuition rate of \$87.00 per credit rather than the non-

resident rate of \$536.30 per credit. There is no provision for the exchange of funds between the two states to compensate for technical college students participating under the agreement.

Table 3 shows the number of Minnesota residents attending WTCS schools under the agreement in 2005-06. Information on the number of Wisconsin students attending Minnesota institutions is not available. As shown in Table 3, 11 of the 16 WTCS districts enrolled a total of 1,682 Minnesota reciprocity students in 2005-06. As one would expect, the WTCS districts that border Minnesota (Chippewa Valley, Western, and Indianhead) enrolled the vast majority of the Minnesota students enrolled under the agreement. With 111 students, Madison was the only other WTCS district to enroll a significant number of Minnesota residents. Many of the individuals enrolled under the agreement attend on a part-time basis, as indicated by the much lower full-time equivalent (FTE) enrollment of 490.98 students.

**Table 3: Minnesota Students Attending WTCS Schools in 2005-06**

District*	Headcount	% of Total	FTEs	% of Total
Chippewa	245	14.6%	90.70	18.5%
Western	659	39.2	236.42	48.2
Southwest	5	0.3	1.34	0.3
Madison	111	6.6	47.17	9.6
Milwaukee	1	0.1	0.33	0.1
Moraine Park	1	0.1	0.67	0.1
Lakeshore	1	0.1	0.10	0.0
Fox Valley	17	1.0	2.82	0.6
Mid-State	1	0.1	0.83	0.2
Gateway	3	0.2	0.60	0.1
Indianhead	<u>638</u>	<u>37.9</u>	<u>110.00</u>	<u>22.4</u>
Total	1,682	100.0%	490.98	100.0%

\*Only those districts that enrolled students under the agreement are shown.

### Reciprocity Agreements with Other States

Under s. 39.42 of the statutes, HEAB, with the approval of the Joint Finance Committee, or the

governing boards of any publicly-supported, postsecondary institution, with the approval of HEAB and the Finance Committee, may enter into reciprocity agreements with appropriate state educational institutions in other states. The statutes specify that these agreements, which include remission of nonresident tuition for designated categories of students, "shall have as their purpose the mutual improvement of educational advantages for residents of this state and such other states or institutions of other states with which agreements are made." Under this authority, the state has entered into education reciprocity agreements with community and technical colleges in Michigan, Illinois, and Iowa.

### University of Wisconsin System

Other than the Minnesota agreement, the UW System participates in only one other tuition reciprocity agreement. This agreement, which was established in 1967, is between a two-year UW System campus, UW-Marinette, and two community colleges in Michigan, Gogebic Community College in Iron Mountain and Bay De Noc Community College in Escanaba. This agreement applies only to those individuals living in Menominee County in Michigan and in Marinette and Iron Counties in Wisconsin. Under the agreement, a resident of Menominee County, Michigan, may enroll at UW-Marinette and pay Wisconsin resident tuition. Similarly, residents of Iron County and Marinette County may enroll at Gogebic Community College and Bay De Noc Community College, respectively, and pay the Michigan resident tuition rate. In 2006-07, tuition rates for Wisconsin residents are \$107.00 per contact hour (the equivalent of one credit) at Bay de Noc and \$97.00 per credit hour at Gogebic. For admissions purposes, students are treated as residents of the state in which they are enrolled. The agreement provides for automatic annual renewal unless either state provides written notice terminating the agreement. Such notice must be given at least 12 months prior to the academic year for which the agreement would be terminated. In 2005-06, 114 Michigan reciprocity students enrolled at UW-Marinette.

## **Wisconsin Technical College System**

In addition to the Minnesota agreement, the Wisconsin Technical College System currently has reciprocity agreements with institutions in Michigan, Illinois, and Iowa. Unlike the Minnesota agreement, these agreements are between individual technical college districts in each state and apply only to residents of those districts.

The agreement with Michigan, which was first established in 1981, involves three Wisconsin technical college districts, Nicolet, Indianhead, and Northeast, and two community colleges in Michigan, Bay de Noc and Gogebic. Under the agreement, Michigan residents attending any of the three Wisconsin technical colleges pay Wisconsin's resident tuition rate and Wisconsin students attending the Michigan colleges pay Michigan's resident tuition rate. In addition, the agreement provides that a resident of one of the states whose employer is located in the other state and whose employer pays his or her tuition, is considered a resident of the other state for tuition purposes. The agreement, which is renewed automatically each year, does not specify particular programs in which students may enroll. In 2005-06, 939 students from Michigan attended WTCS campuses (199.22 FTE students), all of whom enrolled at Northeast.

Three WTCS districts have reciprocity agreements with colleges in Illinois. Gateway Technical College has agreements with the College of Lake County, McHenry County College and Rock Valley College. Blackhawk and Chippewa Valley also have agreements with Rock Valley. Under the current agreements, participating students from both states are charged Wisconsin resident tuition. While priority for admission is given to residents of the state in which the college is located, after their first semester, students enrolled under the agreement are given the same priority as residents. However, no state resident may be displaced due to either agreement. During the 2005-06 academic year, 85 Illinois students attended technical college in Wisconsin (39.01 FTE students), with 48 at Gateway and 37 at Blackhawk.

In addition, the Southwest Technical College in Wisconsin has an agreement with Northeast Iowa Community College, which has campuses in Calmar and Peosta, Iowa. Under the agreement with Iowa, students are charged the resident tuition rate for the institution in which they are enrolled. Therefore, in 2006-07, Wisconsin residents who enroll in Northeast Iowa Community College pay the resident tuition of \$111.00 per credit while Iowa residents enrolled in Southwest Technical College pay \$87.00 per credit. As under the agreements with Illinois institutions, priority for initial admission is given to state residents and participating students are treated as residents for admission purposes after their first semester. In 2005-06, nine Iowa residents attended Southwest, resulting in 4.63 FTE students.

---

## **Individual Income Tax Reciprocity**

---

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. While "personal services income" is defined specifically for each agreement, the term generally includes salaries, wages, commissions, and fees earned by an employee, but does not include other types of income such as gains on the sale of property, rental income, and lottery winnings. Reciprocity applies only to personal service income.

Wisconsin currently has income tax reciprocity agreements with five states: Illinois, Indiana,

Kentucky, Michigan, and Minnesota. Based on the tax reciprocity agreements, Wisconsin does not tax the income from personal services earned in Wisconsin by residents of these states and instead collects taxes on such income earned in these states by Wisconsin residents. Likewise, these other states do not impose their income tax on the income from personal services of Wisconsin residents and instead tax such income earned in Wisconsin by their residents. As a result, Wisconsin foregoes tax revenue from personal service income of residents of reciprocity states who work here and the reciprocity states forego such tax revenue from Wisconsin residents who work there.

The reciprocity agreements with Minnesota and Illinois require a compensation payment when the net foregone tax revenues of one state exceed those of the other state. The other three agreements do not include this provision. Under the two agreements that do require a compensation payment, the compensation payments made to-date have been from Wisconsin to the other state.

### **Effects of Reciprocity on Individual Taxpayers**

The primary benefit of the reciprocity agreements is that border-crossing taxpayers are required to file a return and pay income taxes only in their state of residence. Without reciprocity, such taxpayers would have the additional inconvenience and record-keeping requirements of filing a return in two states. For Wisconsin residents who work in states that tend to have lower income tax liabilities than Wisconsin's, reciprocity also eliminates the need for state residents to make estimated tax payments to Wisconsin. In certain cases, however, reciprocity may also reduce the total income tax liability of border-crossers. This may occur because of differences in tax laws or because income earned in one state is offset by losses incurred in the other state.

#### **Tax Law Differences**

Reciprocity will result in decreased taxes whenever an individual's tax liability is lower in

his or her state of residence than it would be in the state of employment. For example, consider a single taxpayer who lives in Wisconsin and works in a reciprocity state, earning \$45,000 in wages (this individual has no other sources of income). It is also assumed that this taxpayer pays \$600 of monthly rent and claims the standard deduction for federal tax purposes. In tax year 2006, such an individual would have had a net tax liability of \$2,168 if the income were taxed to Wisconsin. In addition, assume that this income would be subject to a tax of \$2,300 if the income were taxed to the state where the wages were earned. With reciprocity, this taxpayer would pay \$2,168 to Wisconsin and have no tax liability in the state where the income was earned. Without reciprocity, however, this taxpayer would pay \$2,300 to their state of employment and have no Wisconsin tax liability because the lower Wisconsin tax would be completely offset by the credit for taxes paid to other states. In this case, the individual's total state tax liability is reduced by \$132 (\$2,300 minus \$2,168) with reciprocity.

The total tax liability would be the same with or without reciprocity in the case of a taxpayer who lives in Wisconsin and works in a state where they would have a lower tax liability. The same example as noted above could be used, except that the Wisconsin resident works in a state where they would have a liability of \$2,000. With reciprocity, \$2,168 would be paid to Wisconsin and no taxes would be paid to the state of employment. In the absence of reciprocity, \$2,000 would be paid to the state where the wages were earned and \$168 would be paid to Wisconsin (\$2,168 Wisconsin gross tax minus a \$2,000 credit for taxes paid to other states) for total state taxes of \$2,168.

#### **Offsetting Losses**

The tax reduction outlined above was due to differences in the income tax laws between Wisconsin and other states. However, even if the tax laws of the two states were identical, income tax reductions could occur for certain taxpayers under reciprocity. As an example, assume that a

Wisconsin resident has wage income of \$45,000 earned in Minnesota and a \$10,000 farm or business loss in Wisconsin. For simplicity, assume that this taxpayer would be subject to an effective tax rate of 5% on income earned in either state.

With reciprocity, after deducting the \$10,000 loss, this individual would have a Wisconsin tax liability of \$1,750  $[(\$45,000 - \$10,000) \times 5\%]$ . Without reciprocity, this taxpayer would pay a tax of \$2,250 to Minnesota on the entire \$45,000 earned in that state and no taxes would be paid to Wisconsin. Because the Wisconsin loss would not be considered in determining Minnesota taxable income and the Wisconsin credit for taxes paid in other states is not refundable, no offsetting tax reduction for the Wisconsin loss would be allowed. Thus, this hypothetical taxpayer receives a reduction of \$500 under reciprocity even though the tax provisions of Minnesota and Wisconsin are assumed to be identical.

### **Reciprocity Payment Agreement With Minnesota**

The Minnesota-Wisconsin reciprocity agreement has been in effect since 1968. Part of the agreement is specified in the statutes, with the remainder detailed in agreements entered into between the two Departments of Revenue (as authorized in the statutes). The following section provides information about Wisconsin's statutory requirements, details of the current reciprocity agreement, and information on historical payments by Wisconsin to Minnesota.

#### **Wisconsin Law**

Wisconsin's Minnesota reciprocity statute specifies that a compensation payment is made when net foregone tax revenues of one state exceed those of the other state. The statute also specifies that the data used to compute the amount of each state's foregone tax revenue is to be determined by the respective Departments of Revenue on or before November 1 of the year following the close of the previous calendar year. The resulting compensation payment amount must be determined jointly

by each state. If an agreement cannot be reached, a three-person board of arbitration is appointed to resolve the difference. The reciprocity statute requires interest to be paid on any delinquent compensation payments. In addition, the Secretary of Revenue is authorized to enter into agreements with the State of Minnesota specifying the reciprocity payment due date, conditions constituting delinquency, interest rates, and the method of computing interest due on delinquent payments.

Effective with tax year 2001, the statutes also provide that Wisconsin must pay Minnesota interest on the annual compensation payment (as opposed to interest on delinquent payments, referred to above). Wisconsin's law specifies that interest is to be calculated according to the Laws of Minnesota 2002 Chapter 377, or at another rate agreed to by the two states. This modification was adopted as part of 2001 Wisconsin Act 109 in response to a Minnesota law change (Laws of Minnesota 2002 Chapter 377) that required the interest payment.

The following sections briefly describe the current Minnesota-Wisconsin income tax reciprocity agreement.

#### **Current Agreement**

**Term of Agreement.** The agreement contains no expiration date and is continued subject to statutory modification. The agreement can be revised at any time upon mutual agreement of both states. Thus, under its current provisions, the income tax reciprocity agreement is open-ended and may be unilaterally terminated by either state through legislative repeal.

**Calculation of Payments.** After a prolonged controversy over the appropriate data and methodology to estimate foregone taxes, a consultant from the Institute of Social Research (ISR) of the University of Michigan was commissioned to prepare a study on the compensation payable under reciprocity for tax years 1973 through 1977. In addition to estimating the amount of foregone taxes

for these years, the ISR study made recommendations regarding the methodology to be used in calculating future compensation payments.

The current agreement has formally adopted the ISR method of calculating the payments. The calculation uses benchmark figures regarding the proportion of border-crossers and income taxes foregone, with adjustments to reflect total income tax collections in each state and population trends in border counties. Payments are currently based on a benchmark study of 1995 income tax returns.

In addition to being the basis of payments for tax year 1997 and thereafter, the 1995 study also resulted in adjustments to the three prior years (1992, 1993, and 1994) to reflect the new data (although adjusting payments may not exceed 10% of the original payment). Specifically, the payment made in December, 1998, was reduced by approximately \$1.2 million because the study found that Wisconsin had paid approximately \$1.2 million more for tax years 1992 through 1996 than the amounts calculated using the new benchmark.

**Calculation of Interest.** The current agreement was modified in September, 2002, to incorporate the recently adopted interest provisions. Under the agreement, all annual payments and adjusting

payments accrue simple interest from July 1 of the tax year to which the payment applies through the date that the annual payment is made. The agreement clarifies that the interest is to be paid on the same day as the annual payment. The agreement also includes the references to each state's statutes detailing the rate of interest to be used. Under current laws of the two states, this rate is the rate Minnesota charges for delinquent tax payments. The rate is determined annually, based on the adjusted prime rate charged by banks during the six-month period ending September 30 of the previous year.

**Administrative Provisions.** The agreement requires payments to be made on December 1, or 30 days after data becomes available for the prior tax year, whichever is later. A method to calculate interest due on delinquent and adjusting payments is also included as part of the agreement. Finally, upon the agreement of both states, a third party may be consulted prior to the use of a board of arbitration in the event of an impasse.

#### Historical Compensation Payments

Table 4 shows the estimated taxes foregone by Wisconsin and Minnesota, the difference in foregone taxes, and the amount paid by Wisconsin

**Table 4: Compensation Payments Under Minnesota-Wisconsin Income Tax Reciprocity**

Tax Year	Taxes Foregone by Minnesota*	Taxes Foregone by Wisconsin*	Difference	Tax Amount Paid by Wisconsin*	Interest Paid by Wisconsin	Amount Paid by Wisconsin*	Payment Date
1996	\$52,138,000	\$14,215,000	\$37,923,000	\$37,872,000	\$0	\$37,872,000	Dec., 1997
1997	56,686,000	16,111,000	40,575,000	39,367,000	0	39,367,000	Dec., 1998
1998	63,159,000	16,882,000	46,277,000	46,475,000	0	46,475,000	Dec., 1999
1999	61,027,000	18,368,000	42,659,000	42,610,000	0	42,610,000	Dec., 2000
2000	64,757,000	16,856,000	47,901,000	47,899,000	0	47,899,000	Dec., 2001
2001	60,496,000	16,451,000	44,045,000	44,210,000	4,800,000	49,010,000	Dec., 2002
2002	59,841,000	16,663,000	43,178,000	42,737,000	3,505,000	46,242,000	Dec., 2003
2003	64,342,000	17,410,000	46,932,000	46,944,000	2,906,000	49,850,000	Dec., 2004
2004	72,226,000	18,465,000	53,761,000	53,748,000	3,054,000	56,802,000	Dec., 2005
2005	79,077,000	20,066,000	59,011,000	59,038,000	4,443,000	63,481,000	Dec., 2006

\*The taxes foregone are shown as estimated when the payment was made. The tax amount paid is based on these estimates and also includes adjustments for prior years.



for net Minnesota taxes foregone since 1996. In addition, Table 4 shows the interest payment required under Act 109, starting with tax year 2001, and the total payment including interest.

In most years, the amount paid by Wisconsin does not equal the difference in foregone revenues. This occurs because adjusting payments are made for prior years, subject to the 10% limit. As noted, the payment for tax year 1997 was the first to reflect the results of the 1995 benchmark study and includes the adjustments described above.

As Table 4 indicates, the reciprocity compensation payment from Wisconsin to Minnesota (excluding the required interest payment, starting with 2001) has increased from \$37.9 million for tax year 1996 to \$59.0 million for tax year 2005. The trend has been for the payment to increase over time, along with increases in the number of border crossers and in total tax collections. The periodic decreases are generally related to adjustments for prior years and changes in the tax laws of the two states.

As shown in Table 4, the interest paid by Wisconsin decreased from a high of \$4.8 million for tax year 2001 to a low of \$2.9 million for tax year 2003, before rising again to \$3.1 million for tax year 2004 and \$4.4 million for tax year 2005. The interest payment is a result of the interaction between the net taxes foregone by Minnesota and the applicable interest rate, and may go up or down depending on the combined effect of these two factors.

### **Reciprocity Payment Agreement With Illinois**

Wisconsin has had an income tax reciprocity agreement with Illinois since 1973. A payment provision that applies to Illinois was enacted in 1997 Wisconsin Act 63 on April 1, 1998. This payment requirement is similar to the Minnesota provision, with the following exceptions: (a) the amount of foregone tax revenue is computed on or before December 1 of the year following the close of the previous calendar year instead of November 1; and (b) with the exception of interest associated

with a delinquent payment, there is no interest due to Illinois with the compensation payment. Act 63 authorizes the Secretary of DOR to enter into agreements with the State of Illinois specifying the reciprocity payment due date, conditions constituting delinquency, interest rates, and the method of computing interest due on delinquent payments.

The Secretary entered into a reciprocity payment agreement with the Director of the Illinois Revenue Department in 1998. The agreement provided for a benchmark study of 1998 tax returns in 2000 and 2001, using the methodology established in the University of Michigan's ISR study. The agreement's provisions related to the estimation of taxes foregone, payment amounts, and adjusting payments also use the ISR study's methods and procedures. In addition, the agreement provides for data verification and reporting, the computation of interest on delinquent payments, impasse resolution, and making modifications to the agreement.

The payment provision of Act 63 was adopted because Illinois officials stated that reciprocity with Wisconsin would be ended unless an agreement for payment was made. At the time Act 63 was adopted, Illinois estimated that the State of Wisconsin was forgoing taxes of \$13 million from Illinois residents who work in Wisconsin and that Illinois was forgoing taxes of \$24 million from Wisconsin residents who work in Illinois. The difference of \$11 million was Illinois' estimate of its annual net revenue loss. The Wisconsin DOR estimated that the difference in foregone taxes could be between \$9.5 million and \$29.0 million annually. Under Act 63, Wisconsin made a payment to Illinois of \$5.5 million in 1998-99 and \$8.25 million in 1999-00. These amounts reflect 50% and 75%, respectively, of Illinois' estimated \$11 million revenue loss in 1998. Act 63 specified that future payments would be based on the results of the 1998 benchmark study, and were anticipated to begin in 2001-02 (no payment would be made in the 2000-01 fiscal year).

**Table 5: Compensation Payments Under Illinois-Wisconsin Income Tax Reciprocity**

Tax Year	Taxes Foregone by Illinois*	Taxes Foregone by Wisconsin*	Difference	Amount Paid by Wisconsin	Payment Date
2000	\$42,652,000	\$13,251,000	\$29,401,000	\$29,401,000	Dec., 2001
2001	44,884,000	12,868,000	32,016,000	32,165,000	Dec., 2002
2002	42,153,000	13,113,000	29,040,000	28,714,000	Dec., 2003
2003	41,695,000	13,719,000	27,976,000	28,042,000	Dec., 2004
2004	46,667,000	14,605,000	32,062,000	31,734,000	Dec., 2005
2005	50,621,000	15,906,000	34,715,000	34,681,000	Dec., 2006

\* The taxes foregone are shown as estimated when the payment was made.

The benchmark study of 1998 tax returns was completed and used for determining taxes foregone by Illinois and Wisconsin, starting with a payment for tax year 2000. These payments, which are shown in Table 5, have ranged from \$28.0 million for tax year 2003 to \$34.7 million for tax year 2005. The payments have been significantly higher than had been estimated by the Illinois DOR, and have recently exceeded the high end of the original range estimated by the Wisconsin DOR. According to the Wisconsin DOR, there are two primary reasons for the payments being at or above the high-end range of the Department's original estimate. First, the original estimate assumed that average income in the two states would be the same. However, the reciprocity study showed that the average income of Illinois residents working in Wisconsin was much lower than the average income of Wisconsin residents working in Illinois. The second reason for the larger payments is that, since 1998, Wisconsin's taxes decreased while Illinois' taxes increased. The net effect of these factors was to increase the payment from Wisconsin to Illinois significantly over the amounts that had been expected when the payment provision was enacted in 1998.

#### **Effect of Income Tax Reciprocity Payment Agreements on State Revenues**

As noted above, Table 4 shows the estimated taxes foregone by Wisconsin and Minnesota and the payments made by Wisconsin since 1996, and Table 5 shows similar information for Illinois and

Wisconsin for tax years 2000 through 2005. The payments to Minnesota and Illinois are largely offset by collections of taxes from Wisconsin residents who work in the two states. However, the new interest payment to Minnesota does involve a cost to Wisconsin to the extent that the rate of interest required for the payment exceeds actual interest earnings to the state of Wisconsin.

The adoption of the interest payment resulted from Minnesota's concern that it was losing money associated with the lag between tax collections for a given tax year and the annual reimbursement from Wisconsin for that year. For example, Wisconsin collected taxes for Wisconsin residents working in Minnesota in 2005 from January, 2005, through the tax filing deadline (in most cases, April 15, 2006). Yet the reimbursement to Minnesota was not made until December, 2006, when total collections for 2005 were known. Minnesota officials believe that this annual lag results in a loss of interest the state could otherwise earn if it collected the taxes directly from Wisconsin residents working in Minnesota.

It is not unreasonable for Wisconsin to reimburse Minnesota for this loss of potential interest earnings. However, to the extent that Wisconsin is required to pay more in interest to Minnesota than the corresponding interest Wisconsin can earn, there is a cost to Wisconsin. For the five years for which Wisconsin has paid interest associated with the tax reciprocity agreement with Minnesota, the net interest cost to

Wisconsin is estimated to have been approximately \$1 to \$3 million annually.

Generally, the reciprocity payment agreements should not be viewed as an annual loss to the Wisconsin general fund (with the possible exception of a portion of the interest payment to Minnesota). Ending reciprocity with Minnesota or Illinois would result in lower income tax collections by an amount approximately equal to Wisconsin's payment to each state because taxes would not be collected on the wages of Wisconsin residents working in Illinois or Minnesota.

However, because some residents of each state receive a tax reduction under reciprocity (as described above under the section on "effects of reciprocity on individual taxpayers"), each of the three states experience a revenue loss under the agreements. The compensation payment is intended to equalize the foregone revenue of each state relative to the other, but the total revenue of each state is lower than it would be in the absence of reciprocity.

Based on information from the 1995 benchmark study for the Minnesota agreement, it has been estimated by the Wisconsin DOR that this revenue loss in Wisconsin from the Minnesota-Wisconsin tax reciprocity agreement is less than \$1 million annually. The revenue loss under the Illinois agreement is estimated to be minimal (based on the 1998 benchmark study).

In considering whether the Minnesota and Illinois reciprocity agreements should be continued, it should be noted that Wisconsin would incur significant revenue losses in the first two fiscal years after reciprocity was ended, due to the delayed compensation payment under the agreements. This would occur because Wisconsin would still be obligated to make payments for prior tax years. In addition, costs associated with processing tax returns are estimated to be significantly lower under reciprocity. If reciprocity were eliminated, DOR would have to process: (a) additional returns from Illinois and Minnesota residents who work in this state; (b) credits to Wisconsin residents for taxes paid to the other states; and (c) estimated payments from Wisconsin residents who work in Illinois and Minnesota.