



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #801

Business Tax Registration Administration and Debt Collection Funding (DOR -- Tax Administration)

CURRENT LAW

Businesses are required to obtain a business tax registration certificate from the Department of Revenue (DOR) for certain licenses, permits and certificates related to sales and use, withholding, fuel and excise taxes. Applicants pay a fee based on the type of permit, license or certificate required; however, a single fee is paid for all such documents acquired. Fees are placed in a program revenue appropriation used to fund administration of the business tax registration system. The appropriation has base level funding of \$1,508,100 PR and 23.4 PR positions.

DOR is authorized to offset state tax refunds against the debts of other state agencies and counties and municipalities. Base level funding of \$303,600 PR is provided to fund administrative costs.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The business tax registration system was established by 1995 Wisconsin Act 27 (the 1995-97 biennial budget). Under Act 27, DOR was required to implement a centralized business tax registration system through which a taxpayer could apply for all required permits, licenses and certificates using one application and paying one registration fee. A two-year renewal cycle was established. The Department was directed to develop a registration fee schedule that reflected traditional differentials in fees and costs for businesses, with a minimum registration fee of \$20 and a minimum renewal fee of \$10. DOR was also directed to submit the proposed fee schedule and an

estimate of the point at which the fees would exceed the costs of administering the fee system to the Joint Committee on Finance at its first meeting under s. 13.10 in 1995-96.

A separate program revenue appropriation was created to fund administration of the business tax registration system with registration and renewal fees as the source of revenue for the appropriation. Annually, the unencumbered year-end balance in the appropriation in excess of 10% of fiscal year expenditures lapses to the general fund. Act 27 also converted the funding source for 16.8 GPR positions to PR and provided DOR with 3.0 PR project positions to administer the business tax registration system. The positions were funded from the program revenue appropriation.

2. The Department submitted two alternative fee schedules for approval at the Committee's October, 1995, meeting under s 13.10. The Committee approved the registration and renewal fee schedule that is currently in effect and the new fees were scheduled to begin on January 1, 1996. Consequently, registration renewal fees were due starting in 1998. The registration and renewal fee schedule was projected to generate fee revenues that would first exceed appropriation expenditures in 1997-98. The appropriation balance was expected to be positive beginning in 1998-99. Table 1 shows the current business tax registration fee schedule.

TABLE 1

Business Tax Registration and Supplemental Fee Schedule

	<u>Initial Registration</u>	<u>Biennial Renewal</u>
Business Tax Registration Certificate	\$20	\$10
Expedited Services Fee	10	0
Supplemental Fees		
Wisconsin Liquor Wholesaler	1,000	1,000
Wisconsin Liquor Manufacturer	1,000	1,000
Wisconsin Liquor Rectifier	1,000	1,000
Out-of-State Liquor Shipper	500	500
Public Warehouse Liquor	200	200
Wisconsin Winery	200	200
Sports Club (Liquor)	600	600
Sports Club (Beer)	200	200
Airport Public Facility	600	600
Vessel (Liquor)	600	600
Vessel (Beer)	200	200

3. As introduced by the Governor, the 1999-01 biennial budget bill provided \$123,900 PR in 1999-00 and \$181,100 PR in 2000-1 and 3.0 PR positions annually to convert project positions that supported the business tax registration system to permanent positions. Because of projected long-term deficits in the business tax registration administrative appropriation, the Joint

Committee on Finance deleted the funding and positions. In its budget deliberations, the Legislature provided 3.0 permanent positions but no additional funding. However, the Governor deleted a nonstatutory provision authorizing the positions as part of a veto to provide a one-time increase in funding for the school levy tax credit in 2001-02.

4. In December, 1999, DOR was provided the three positions with no additional funding through the s. 16.515 process. The Department indicated that it would reallocate funding that would otherwise be used for contract programming. The positions would be used to complete the business tax registration system, incorporate law changes and improvements into the system, and to include the business tax registration system as a basic component in DOR's integrated tax system.

5. In approving the Department's s. 16.515 request, DOA indicated that the Governor and Legislature had previously concurred in DOR's need for the requested positions. Since the approval of the request did not affect the funding level for the appropriation, the ending cash balance in the appropriation would be unaffected. However, DOA expressed concern that the business tax registration appropriation was projected to have a deficit for ten years. Consequently, DOR was directed to include a proposal for addressing the deficit in its 2001-03 budget request.

6. Under the provisions of the bill, total annual expenditure authority for the business tax registration administration appropriation would be \$1,496,000 PR and 23.4 PR positions. The funding sources for the appropriation are registration and renewal fees. Table 2 shows the revenue, expenditures (including compensation reserves and other adjustments) and appropriation balances under the bill. The table shows that the projected appropriation balance will be a deficit of almost \$600,000 at the end of 2002-03. Moreover, the Department estimates that the appropriation will have a substantial year-end deficit through 2010. The bill does not include provisions that specifically address this problem.

TABLE 2

Business Tax Registration Administrative Appropriation

	<u>2001-02</u>	<u>2002-03</u>
Beginning Balance	- \$869,800	- \$546,600
Revenues	1,864,400	1,534,000
Expenditures	<u>- 1,541,200</u>	<u>- 1,584,900</u>
Closing Balance	- \$564,600	- \$597,500

7. The March 24, 2001, state agency position status report indicates that 0.65 revenue agent position funded by the business tax registration appropriation was vacant for 11 months. Given the length of time the position remained unfilled, it could be argued that it appears that DOR can administer the business tax registration system without the position being filled. Moreover, the

ongoing deficit in the administrative appropriation indicates that the program is spending more than it has revenue to fund. As a result, the 0.65 position authority and \$28,800 PR in annual expenditure authority could be deleted to partially address the ongoing appropriation deficit.

8. The Department indicates that they are in the process of filling the 0.65 position and deletion of the position could hinder registration compliance activities.

9. As noted, the business tax registration system will be a basic component of the Department's integrated tax system (ITS). The integrated tax system involves the use of technology to develop and implement a comprehensive modernization, upgrade and reorganization of DOR's tax administration personnel, activities, processes and systems into functional components. The business tax registration system will be incorporated into ITS and adopted to function as the registration component. The registration component will permit single, centralized registration by all taxpayers regardless of tax type and maintenance of account information about each customer across all tax types in one central source. It is anticipated that the ITS will improve taxpayer services, the efficiency of tax collection activities, and financial controls.

10. Under current law, DOR is authorized to offset against state tax refunds amounts owed for state taxes, debts to state agencies, delinquent child and spousal support and maintenance payments, and municipal and county fines fees and forfeitures. DOR is also allowed to enter into an agreement with the federal Internal Revenue Service (IRS) to offset state tax refunds against federal tax obligations if the IRS offsets federal tax refunds against state tax obligations. The administrative costs of collecting debts owed to state agencies and to municipalities and counties are funded through the program revenue debt collection appropriation. The source of revenue for the appropriation is an administrative charge imposed on state agencies and local units of government. The Department is generally authorized to charge for administrative services, but must annually review the administrative charge and adjust it to reflect costs incurred. Currently, DOR retains 1.5% of the amount of the debt offset for administrative costs.

11. Under the bill, total funding for the debt service appropriation would be \$317,200 annually. Table 3 shows revenues, expenditures (including compensation reserves and other adjustments) and appropriation balances for the debt service appropriation. The table shows that the unobligated balance in the appropriation would be \$570,000 in 2002-03.

TABLE 3

Debt Collection Appropriation

	<u>2001-02</u>	<u>2002-03</u>
Beginning Balance	\$292,800	\$424,600
Revenues	458,500	481,400
Expenditures	<u>- 326,700</u>	<u>- 336,000</u>
Closing Balance	\$424,600	\$570,000

12. Since implementation of ITS is expected to improve the efficiency of the Department's compliance activities, DOR's debt offset programs should benefit from the system. Transferring funds from the debt collection program to the business tax registration program could be viewed as an appropriate use of the funds, given the long-term improvements in the Department's ability to identify and track debtors that is expected. As Table 3 indicates, a total of \$570,000 could be transferred during the biennium from the debt collection appropriation balance to the business tax registration administrative appropriation. One alternative would be to transfer \$400,000 in 2001-02 and \$170,000 in 2002-03. If this action were combined with the deletion of 0.65 PR position and \$28,800 PR in annual funding (discussed above), the business tax registration appropriation would have a positive closing balance at the end of 2002-03. However, these actions would not permanently eliminate the long-term deficit in the appropriation. Under s. 16.513(3), the Department would be required to develop a plan for dealing with the long-term deficit in the appropriation and submit it to the Secretary of Administration. DOR could submit this plan with its 2003-05 budget request. Table 4 shows the revenues, expenditures and appropriation balances for the business tax registration appropriation if these alternatives were adopted.

TABLE 4

Alternative Revenues, Expenses and Appropriation Balances

	<u>2001-02</u>	<u>2002-03</u>
Beginning Balance	- \$869,800	- \$117,800
Revenues	1,864,400	1,534,000
Transfer from Debt Collection	400,000	170,000
Expenditures	<u>- 1,512,400</u>	<u>- 1,556,100</u>
Closing Balance	- \$117,800	\$30,100

13. Under a provision included in 1997-99 Wisconsin Act 27, \$250,000 was lapsed in 1997-98 from the balance of the debt collections appropriation to the general fund. This was viewed as reimbursement of state taxes collected and payment for general GPR administrative services provided by the Department. As a result, an alternative would be to require that the unencumbered year-end balance in the debt collection appropriation lapse to the general fund. This would increase GPR-earned by \$424,600 in 2001-02 and \$145,400 in 2002-03. This can be viewed as an alternative to the transfer to business tax registration because DOR is required to develop a plan for dealing with the deficit in the business tax registration administration appropriation. As noted, DOR has not submitted such a plan to DOA.

ALTERNATIVES

1. Delete 0.65 PR position and \$28,800 PR annually from the business tax registration administrative appropriation [20.566(1)(gb)].

Alternative 1	PR
2001-03 FUNDING (Change to Bill)	- \$57,600
2002-03 POSITIONS (Change to Bill)	- 0.65

2. Transfer funding of \$400,000 PR in 2001-02 and \$170,000 PR in 2002-03 from the debt collection administrative appropriation [20.566(1)(h)] to the business tax registration administrative appropriation [20.566(1)(gb)]

3. Require that the year-end unobligated balance in the debt collection administrative appropriation [20.566(1)(h)] to lapse the general fund.

Alternative 3	GPR
2001-03 REVENUE (Change to Bill)	\$570,000

4. Maintain current law.

Prepared by: Ron Shanovich