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Illinois Income Tax Reciprocity (General Fund Taxes -- Income and Franchise Taxes)

[LFB 2015-17 Budget Summary: Page 174, #3]

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, 2014, and totaled $82.1 million.

GOVERNOR

Decrease the estimated payment by $5,119,000 in 2015-16 and increase the estimated payment by $800,000 in 2016-17 under the Illinois-Wisconsin individual income tax reciprocity agreement. Payments are estimated, compared to the base funding level of $78,800,000, at $73,681,000 in 2015-16 and $79,600,000 in 2016-17.

MODIFICATION

Reestimate Wisconsin's payments under the Illinois-Wisconsin income tax reciprocity agreement at $78,800,000 in 2015-16 and $62,500,000 in 2016-17. Compared to the bill, the reestimate would increase the payment by $5,119,000 GPR in 2015-16 and decrease the payment by $17,100,000 GPR in 2016-17.

> **Explanation:** The reestimated payments reflect a change to the Illinois income tax that takes effect in tax year 2015. In 2011, Illinois enacted a temporary income tax increase, which caused Wisconsin's reciprocity payment to increase. The Illinois rate increase expires in tax year 2015, and the Illinois income tax rate will decrease from 5.0% to 3.75% causing the payment to decrease.

	Change to Bill
GPR	-$11,981,000

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