Education and Income Tax Reciprocity Agreements

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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 and community 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 negotiated and administered jointly by the Minnesota Higher Educational Services Office (MHESO) and the Wisconsin Higher Educational Aids Board (HEAB).

History

The legislation authorizing this agreement 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 compact provided for the transfer of a limited number of students to 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. 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 students were lifted. In addition, each state was to annually determine 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 has historically been higher than Wisconsin's, it was agreed that the amount a state owed would be based on a formula which reflects actual educational costs rather than the tuition differential. Each state's obligation would be the difference between the calculated educational costs and the total amount of tuition paid by its students attending schools in the other state. The difference between each state's obligation would become the payment obligation between the two states. This formula is still used under the current agreement.

At Wisconsin's request, medical, dental and veterinary students were excluded from the agreement beginning in 1987-88. 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 (the 1997-99 state budget), was made at Minnesota's request due to the significant 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.

Because the total number of credits taken by Minnesota students attending UW institutions had always exceeded the number of credits taken by Wisconsin students attending Minnesota institutions, prior to 1995-96, Minnesota annually made a reciprocity payment to Wisconsin. However, after peaking in 1990-91, this trend began to reverse and in 1995-96, Wisconsin's liability obligation was greater than Minnesota's resulting in a payment to Minnesota of $505,159 in fiscal year 1996-97. The payments made to Minnesota in December of 1997 and 1998, for the 1996-97 and 1997-98 academic years were $1,308,115 and $2,106,454, respectively. Based on enrollment projections and data available when negotiations were held for renewal of the agreement in 1998, Wisconsin's liability obligation was expected to continue to grow. The potential increase in Wisconsin's payment to Minnesota, as well as the significant difference in the tuition rates paid by Minnesota residents and Wisconsin residents attending UM-Twin Cities, led both states to seek significant changes to the agreement prior to its July 1, 1998 renewal.

Current Agreement

Unlike all of the previous Minnesota-Wisconsin tuition reciprocity agreements, the current agreement does not include an expiration date. Rather, the agreement is automatically renewed each year unless terminated or modified with the consent of both states. However, proposed changes to the agreement must be approved by the Joint Committee on Finance.

At the time of renewal, the most significant changes made to the agreement, which first applied to reciprocity students enrolled in the 1998-99 academic year, were due in large part to two factors. Since, historically, resident tuition at Minnesota institutions was generally higher than at Wisconsin institutions, Wisconsin residents attending Minnesota institutions under the agreement paid lower tuition than Minnesota residents attending the same institution. This situation proved awkward for Minnesota and for a number of years, that state sought to increase tuition rates paid by Wisconsin residents attending Minnesota institutions in order to reduce the tuition differential. While Wisconsin had been opposed to such increases in the past, as its liability obligation increased, finally resulting in a payment to Minnesota in December of 1996, Wisconsin negotiators began to consider higher tuition for Wisconsin residents attending Minnesota schools in order to reduce the state's payment to Minnesota.

Negotiations for the renewal of the current agreement, which began in the fall of 1995, 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). While the agreement is not included in the Minnesota statutes, Wisconsin law specifies that the agreement is subject to the approval of the Joint Committee on Finance. The Committee approved the proposed agreement, with some modifications, in August of 1997. However, legislation was required to codify some of the changes that were approved by the Committee. These statutory modifications were accomplished in 1997 Act 200.

Prior to 1998-99, the reciprocity tuition rate paid by a participating student 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." Act 200 modified the statutes to require that the agreement establish a reciprocal fee structure for participating students and provided that the reciprocal fee charged under the agreement could not exceed the higher of the resident tuition that would be charged the student at the institution in which the student is enrolled or the resident tuition that would be charged the student at a comparable institution in the student's state of residence. This change increased the flexibility of the administering agencies in the two states to jointly set reciprocity tuition rates within a set range to address the tuition differential.

Act 200 established additional statutory requirements to maintain legislative oversight given the increased flexibility to set tuition rates that was provided to the administering agencies and the elimination of the expiration date. Previously, actual reciprocity tuition rates were specified in an administrative memorandum that was prepared jointly by HEAB and MHESO each year. Use of the administrative memorandum was not required by law. However, under Act 200, the two administering agencies are required to prepare, prior to each academic year, an administrative memorandum that establishes policies and procedures for implementation of the agreement for the upcoming academic year. In addition, the administrative memorandum must include a description of how the reciprocal fee structure is to be determined. Annually, HEAB is required to submit the administrative memorandum to the Joint Committee on Finance for its approval under a 14-day passive review process. If the Committee does not schedule a meeting to review the administrative memorandum within 14 working days after the date of submittal, HEAB may implement the policies, procedures and reciprocal fee structure as proposed in the memorandum.

While reciprocity tuition rates are not included in the agreement, the agreement specified that, for the 1998-99 and 1999-00 academic years, Wisconsin residents attending UM-Twin Cities as undergraduates would be 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 alleviate, to some extent, 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 reduces Wisconsin's total financial liability, and thus, its reciprocity payment to Minnesota. Approximately 50% of Wisconsin undergraduates attending a Minnesota college or university under the agreement enroll at UM-Twin Cities.

The agreement stipulated that in the spring of the 1998-99 and 1999-00 academic years, the administering agencies would analyze the impact of the tuition gap surcharge on UM-Twin Cities enrollment and on the goal of maintaining a financially equitable agreement to determine whether the additional charge should be continued. Since the number of Wisconsin undergraduates enrolling at UM-Twin Cities had not declined significantly since the implementation of the surcharge, both states agreed to continue the additional charge. In 2002-03, the difference between the annual resident tuition rates at the two campuses is $1,566, resulting in a tuition gap surcharge of $391.

In general, the reciprocal fee structure outlined in the administrative memorandum calls for reciprocity students to pay the tuition rate charged at a comparable institution in his or her state of residence. However, in addition to the tuition gap surcharge for reciprocity students attending UM-Twin Cities, the current administrative memorandum includes the following exceptions to the general reciprocity tuition structure.

UM-Morris. Beginning with the 1998-99 academic year, Wisconsin residents attending UM-Morris under the agreement pay the UW-Madison tuition rate.

UW-Eau Claire and UW-Stout. Beginning in 2000-01, Minnesota residents attending UW-Eau Claire as undergraduates pay the weighted average tuition charged at the Minnesota State University campuses plus the differential tuition rates charged to all undergraduates at Eau Claire and Stout, provided the total does not exceed the undergraduate tuition charged to Wisconsin residents at those campuses. 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 2002-03, the weighted average annual tuition at Minnesota State Universities is $3,425 while the amount, including differential tuition, charged to residents enrolled at Eau Claire and Stout is $3,100 and $3,150, respectively. Therefore, reciprocity students pay the Minnesota rate of $3,425. Starting in 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 $114.15.

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 2002-03 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. Prior to the 1998-99 academic year, the student would have paid the graduate tuition rate at UW-Madison or UW-Milwaukee. Because Wisconsin's 2002-03 resident tuition rate for graduate students at the comprehensive campuses is higher than the tuition charged at the Minnesota State Universities, the Wisconsin rate is paid by all graduate students enrolled under the reciprocity program at these campuses. An exception was made for returning MBA students enrolled at Madison, Milwaukee, Twin Cities and Duluth. These students were "grandfathered," meaning that they continue to pay the tuition rate that they would have paid in their home state. This exception does not apply to MBA students first enrolled in 1998-99 and thereafter.

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. 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 12 credits at a Minnesota institution paid less in tuition than he or she would have paid had the student enrolled for 12 credits at a UW System institution. Beginning with the 1998-99 academic year, a Wisconsin resident attending a Minnesota institution as an undergraduate is charged the full-time tuition rate when the student enrolls for 12 credits or more per term.

The changes to the reciprocity tuition structure that were implemented when the agreement was renewed in 1998 increased the total tuition paid by Wisconsin residents under the agreement beginning in the 1998-99 academic year. Increasing the portion of a student's educational costs paid by the student has, in turn, decreased Wisconsin's liability obligation. As a result, Wisconsin has not been required to make a payment to Minnesota since 1997-98. However, Minnesota resident tuition rates have increased faster than UW System's rate of resident tuition increases. Because of the tuition differential, Minnesota's reciprocity payment to Wisconsin fell from $2,543,496 in 1998-99 to $302,741 in 2001-02.

Reciprocity Tuition and the Calculation of Liability Obligation

Prior to the 1998-99 academic year, the tuition amount paid by a student participating under the agreement, or "reciprocity tuition," was defined as the average tuition, excluding segregated fees, the student would have paid had the student enrolled in a comparable institution in his or her home state. Although current law allows HEAB and MHESO to set the reciprocity tuition rate at any amount up to the higher of the two states' resident tuition rates, Minnesota residents enrolled under the agreement as undergraduates continue to pay the tuition rate they would have paid had they enrolled in an institution in Minnesota. UM-Twin Cities and UM-Duluth charge higher tuition for resident graduate students while Minnesota State institutions currently charge less tuition for resident graduate students than do similar UW institutions. Therefore, graduate students enrolled under the reciprocity program at UW-Madison, UW-Milwaukee, UM-Twin Cities, and UM-Duluth pay Minnesota's tuition rate while all other reciprocity graduate students in either state pay Wisconsin's tuition rate. Because most reciprocity students enroll as undergraduates and Minnesota's resident undergraduate tuition continues to be higher than Wisconsin's, 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, the money is deposited into the state's general fund. The deposit is termed "GPR-Earned."

Each state's financial obligation under the agreement is calculated by subtracting the total amount of reciprocity tuition paid by students from the other state from the "reciprocity cost" per credit hour multiplied by the total number of credit hours taken by students from the other state. Reciprocity cost, which is defined as 64% of Wisconsin's total per credit instructional costs, is that portion of total student costs that varies with changes in enrollment and excludes fixed costs. Wisconsin costs are used to calculate liability for both states because it is assumed that instructional costs are similar for both states. The state with the higher liability amount determined under this formula pays the difference to the other state.

Table 1 shows the per credit instructional cost, reciprocity cost, tuition paid by Minnesota students attending Wisconsin institutions and Wisconsin resident tuition for 2001-02.

One can use Table 1 to calculate that portion of Minnesota's liability obligation attributable to a

Table 1: Tuition Reciprocity Costs and Tuition Per Credit – 2001-02

	Cost Per Credit		Tuition Per Credit	
Institution Category	Instructional	Reciprocity	Minnesota Reciprocity	Wisconsin Resident
Doctoral Campuses				
Undergraduate Students				
UW-Madison	$299.65	$191.78	$202.15	$148.65
UW-Milwaukee	282.42	180.75	205.00	144.25
Graduate Students				
UW-Madison	1,145.57	733.16	366.50	365.00
UW-Milwaukee	885.76	566.89	366.50	349.10
Nondoctoral Campuses				
Undergraduate Students	254.09	162.62	129.50	115.65
Graduate Students	593.75	380.00	223.35	223.35
UW-Eau Claire				
Undergraduate Students			129.50	119.80
Graduate Students			223.35	223.35
UW-Stout				
Undergraduate Students			129.50	121.50
Graduate Students			234.45	234.45
UW-Colleges	210.72	134.86	102.35	100.90

Minnesota resident attending a UW institution and the amount paid by the student in the form of excess tuition. For example, for a Minnesota undergraduate attending UW-Madison in 2001-02, the total reimbursement due Wisconsin was $191.78 multiplied by the number of credits taken. However, Minnesota students attending UW-Madison paid $202.15 per credit, $10.37 per credit higher than the reciprocity cost of $191.78 per credit, thus Wisconsin would incur a reciprocity payment liability of $10.37 per credit for a Minnesota student at UW-Madison. Since the student paid $53.50 more tuition per credit than a Wisconsin resident at UW-Madison ($202.15 - $148.65), the $53.50 in excess tuition would be deposited to the state's general fund, resulting in a total GPR-earned of $43.13 per credit ($53.50 - $10.37).

Costs associated with reciprocity students also contribute to Minnesota's liability obligation, which is intended to reflect the difference between the net cost of educating the Minnesota student and the amount of tuition paid by the student. While undergraduate reciprocity tuition exceeded net reciprocity cost per credit at UW-Madison in 2001-02, the reciprocity tuition for all other Minnesota reciprocity students remained below reciprocity cost per credit. Thus, for example, the per-credit liability amount associated with an undergraduate student at one of the nondoctoral campuses was $33.12, which is the reciprocity tuition subtracted from the reciprocity cost ($162.62 - $129.50).

Table 2 shows data on enrollment and net cost for Minnesota and Wisconsin students under the reciprocity agreement for each year from 1991-92 to 2001-02. Net cost is calculated by subtracting the total amount of reciprocity tuition paid from the reciprocity cost per credit multiplied by the number of credits taken.

As shown in the table, until 1995-96, Minnesota had always made a reciprocity payment to Wisconsin. This occurred because the total number of credits taken by Minnesota students attending UW institutions was greater than the number of credits taken by Wisconsin students attending Minnesota institutions. However, between 1990-91,

Table 2: MN-WI Reciprocity Enrollment and Payment History

Academic Year	Minn. Students Enrolled in WI No.	Minn. Students Enrolled in WI Net Cost	WI Students Enrolled in Minn. No.	WI Students Enrolled in Minn. Net Cost	Reciprocity Payment*	Net Tuition Differential	Total GPR Earned
1990-91	12,035	$17,101,427	7,136	$10,478,901	$6,622,526	$1,884,083	$8,506,609
1991-92	12,342	15,076,928	7,492	11,788,659	3,288,269	4,335,986	7,624,255
1992-93	11,985	15,693,868	7,965	13,235,438	2,458,430	4,982,720	7,441,150
1993-94	11,519	17,056,773	8,724	15,044,699	2,012,074	4,444,771	6,456,845
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	13,022	22,793,477	10,480	20,362,958	2,430,518	4,905,299	7,335,817
2001-02	13,142	20,592,614	9,816	20,895,356	-302,741	6,535,256	6,232,515

*Payment made to Wisconsin by Minnesota. The reciprocity payment is made in December of the following fiscal year.
**The 1995-96 payment was $510,884, less $5,725 for a prior year adjustment.

when Minnesota's payment to Wisconsin peaked at $6.6 million, and 1994-95, the gap between the two states' liability obligations narrowed, decreasing Minnesota's reciprocity payment to Wisconsin. In 1995-96, 1996-97 and 1997-98, Wisconsin's liability obligation was greater than Minnesota's, resulting in payments to Minnesota. These payments were made from a general purpose revenue (GPR) sum sufficient appropriation established for this purpose.

The decrease in Minnesota's reciprocity payment to Wisconsin between 1990-91 and 1997-98 was the result of two factors: (a) a 55.9% increase in the number of credits taken by Wisconsin residents attending Minnesota institutions versus a 7.8% increase in the number of credits taken by Minnesota residents attending UW campuses; and (b) a large increase in Minnesota's resident tuition in 1991-92. However, increases in Minnesota's resident tuition rates also cause the tuition differential to increase, which means that a Minnesota resident enrolled in a Wisconsin institution is paying a larger portion of the total amount owed to Wisconsin under the agreement. During most of this period, tuition charged to Minnesota residents increased at a faster rate than Wisconsin resident tuition. The resulting increase in GPR-Earned from the tuition differential offset, to some degree, the decline in Minnesota's reciprocity payment to the general fund.

As indicated in Table 2, after reaching $5.6 million in 1996-97, the tuition differential declined until 2000-01 due to larger increases in Wisconsin tuition. Since 2000-01, tuition charged to Minnesota residents has again increased at a faster rate than Wisconsin resident tuition. As a result, in 2001-02 the tuition differential increased to $6,535,256, its highest level in 10 years, while, for the first time since 1997-98, Wisconsin made a reciprocity payment to Minnesota of $302,741. Despite a slight increase in the number of Minnesota students enrolled in Wisconsin, Minnesota's net reciprocity cost declined from 2000-01 to 2001-02 because the higher tuition charged to Minnesota students covered a larger portion of the reciprocity cost per credit. Wisconsin's net reciprocity costs rose between 2000-01 and 2001-02 despite a 6% reduction in the number of Wisconsin students enrolled in Minnesota because the reciprocity cost per credit increased at a faster rate than the tuition paid by

Wisconsin residents. When Minnesota's reciprocity payment of $302,741 is included, the net amount deposited in Wisconsin's general fund attributable to academic year 2001-02 equaled $6,232,515.

Minnesota-Wisconsin Tuition Reciprocity Agreement -- WTCS

The Minnesota-Wisconsin reciprocity agreement involving Wisconsin's technical colleges is part of the larger agreement, discussed in the preceding section, that also provides for tuition reciprocity for students attending universities and community colleges. Technical colleges were included in the agreement in 1972-73. Similar to the portion of the agreement that pertains to university and community college students, reciprocity is statewide, 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 10 Minnesota technical colleges would pay Minnesota resident tuition, which varies by campus, but ranges from $83.25 to $104.00 per credit in 2002-03. Similarly, a Minnesota resident attending a Wisconsin Technical College System (WTCS) institution in 2002-03 would pay the resident tuition rate of $67.00 per credit rather than the nonresident rate of $513.70 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 2001-02. Information on the number of Wisconsin students attending Minnesota institutions is not available. As shown in the table, eight of the 16 WTCS districts enrolled a total of 2,166 Minnesota residents. These students were enrolled primarily in vocational adult (52.6%) and associate degree programs (39.2%). As one would expect, the WTCS districts that border Minnesota (Chippewa Valley, Western and Indianhead) enrolled 91.3% of

Table 3: Minnesota Students Attending WTCS Schools in 2001-02

District*	Headcount	% of Total	FTEs	% of Total
Chippewa	291	13.4%	68.43	13.7%
Western	709	32.7	214.27	42.8
Madison	164	7.6	62.04	12.4
Lakeshore	1	0.0	0.67	0.1
Fox Valley	19	0.9	2.02	0.4
Norheast	1	0.0	0.43	0.1
Mid-State	1	0.0	0.40	0.1
Indianhead	980	45.2	152.38	30.4
TOTAL	2,166	100.0%	500.64	100.0%

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

the Minnesota students participating in the agreement. With 164 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 500.64 students.

Reciprocity Agreements with Other States

Under s. 39.42 of the statutes, HEAB, with the approval of the Joint Committee on Finance, or the governing boards of any publicly-supported, post-secondary 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 located 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 2002-03, tuition rates for Wisconsin residents are $81.25 per contact hour at Bay de Noc and $74.00 per credit hour at Gogebic. One contact hour at Bay de Noc and one credit hour at Gogebic is usually equal to one credit. 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. For the fall semester of 2001, 177 Michigan residents 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 Bay de Noc Community College and Gogebic Community College. 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, shall be 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 2001-02, 724 students from Michigan attended WTCS campuses, with 714 of these students enrolled at Northeast and 10 at Indianhead.

Three WTCS districts have reciprocity agreements with colleges in Illinois. Gateway 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 an agreement. During the 2001-02 academic year, 87 Illinois students attended technical college in Wisconsin, all of them at Gateway. During the same year, Wisconsin residents attended Lake County, McHenry and Rock Valley community colleges. According to staff at these colleges, the number of students attending courses under the reciprocity agreement for 2001-02 is unavailable.

Wisconsin's agreement with Iowa became effective in the 1996-97 academic year. The agreement is between Southwest Technical College in Wisconsin and 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 2002-03, Wisconsin residents who enroll in Northeast Iowa Community College will pay the resident tuition of $98.00 per credit while Iowa residents enrolled in Southwest Technical College will pay $67.00 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 2001-02, two Iowa residents attended Southwest. According to Northeast Iowa staff, information on the number of Wisconsin residents attending the campus under the reciprocity agreement is not collected.

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 in the state of legal residence.

Wisconsin currently has income tax reciprocity agreements with five states: Illinois, Indiana, Kentucky, Michigan, and Minnesota. With these agreements, Wisconsin does not tax the wage and salary income earned in Wisconsin by residents of these states and instead collects taxes on income earned in these states by Wisconsin residents. Likewise, these other states do not impose their income tax on the earnings of Wisconsin residents and instead tax income earned in Wisconsin by their residents. As a result, Wisconsin foregoes tax revenue from residents of reciprocity states who work here and the reciprocity states forego 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 2001, such an individual would have had a net tax liability of $2,271 if the income were taxed to Wisconsin. In addition, assume that this income would be subject to a tax of $2,500 if the income were taxed to the state where the wages were earned. With reciprocity, this taxpayer would pay $2,271 to Wisconsin and have no tax liability in the state where the income was earned. Without reciprocity, however, this taxpayer would pay $2,500 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 $229 ($2,500 minus $2,271) 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, $2,271 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 $271 would be paid to Wisconsin ($2,271 Wisconsin gross tax minus a $2,000 credit for taxes paid to other states) for total state taxes of $2,271.

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) X 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 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 shall 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

TABLE 4: Compensation Payments Under Minnesota-Wisconsin Income Tax Reciprocity

Tax Year	Taxes Foregone by Minnesota*	Taxes Foregone by Wisconsin*	Difference	Amount Paid by Wisconsin**	Payment Date
1992	$37,551,000	$10,728,000	$26,823,000	$26,893,000	Dec., 1993
1993	38,322,000	11,328,000	26,994,000	26,996,000	Dec., 1994
1994	40,719,000	12,240,000	28,479,000	28,504,000	Dec., 1995
1995	44,951,000	13,042,000	31,909,000	31,887,000	Dec., 1996
1996	52,138,000	14,215,000	37,923,000	37,872,000	Dec., 1997
1997	56,686,000	16,111,000	40,575,000	39,367,000	Dec., 1998
1998	63,159,000	16,882,000	46,277,000	46,475,000	Dec., 1999
1999	61,027,000	18,368,000	42,659,000	42,610,000	Dec., 2000
2000	64,757,000	16,856,000	47,901,000	47,899,000	Dec., 2001
2001	60,496,000	16,451,000	44,045,000	49,010,000	Dec., 2002

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

** The payment for tax year 1997 includes adjustments made according to the 1995 benchmark study. The payment for 2001 includes an interest payment of $4.8 million.

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, the 2001-03 biennial budget adjustment act, in response to a Minnesota law change under its own budget adjustment legislation (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 charge 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 of compensation actually paid by Wisconsin since 1992. In addition, Table 4 shows the interest payment required under Act 109 for tax year 2001.

In some years, the amount paid by Wisconsin does not equal the difference in foregone revenues. This occurs because an adjusting payment was made, subject to the 10% limit. For tax year 2001, the difference in foregone revenues and the payment to Minnesota also reflects the interest paid by Wisconsin. 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 shown in Table 4, the interest associated with the tax year 2001 payment was $4.8 million. This amount was based on an interest rate of 9% for the period from July 1, 2001, though December 31, 2001, and a rate of 7% for the period from January 1, 2002, through the date of the annual payment, which was December 2, 2002.

As Table 4 indicates, the reciprocity compensation payment from Wisconsin to Minnesota has increased from $26.9 million for tax year 1992 to $44.2 million for tax year 2001 (the $49.1 million shown for 2001 in Table 4 includes the $4.8 million interest payment required under Act 109). 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.

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) 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 relate 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 for modification 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 forgoes taxes of $13 million from Illinois residents who work in Wisconsin and that Illinois foregoes taxes of $24 million from Wisconsin residents who work in Illinois. The difference of $11 million was Illinois' estimate of its 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).

The benchmark study of 1998 tax returns was completed and used for determining taxes foregone by Illinois and Wisconsin for 2000 and 2001. As shown in Table 5, the payment to Illinois for tax year 2000 was $29.4 million, and the payment for 2001 was $32.2 million. The payments are larger than had been anticipated by either revenue department at the time the two states agreed to the study. According to the Wisconsin DOR, there are two primary reasons for the discrepancy. 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 1992, and Table 5 shows similar information for Illinois and Wisconsin for tax years 2000 and 2001. 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-Wisconsin 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

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	32,106,000	32,165,000	Dec., 2002

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

collected taxes for Wisconsin residents working in Minnesota from January, 2000, through the tax filing deadline (in most cases, April 15, 2001). Yet the reimbursement to Minnesota was not made until December, 2001, when total collections for 2000 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. Based on Wisconsin's earnings in the state investment fund during 2001 and 2002, it is estimated that the net cost to Wisconsin of the first interest payment to Minnesota under the new terms was approximately $3 million.

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.