STATE OF WISCONSIN

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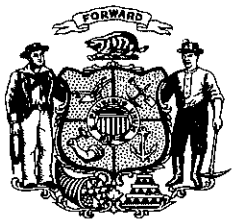

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JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative John Nygren

Date: January 20, 2017

Re: DOR Report to JFC

Attached is the Fiscal Year 2016 summary report related to the Audit Initiative from the Department of Revenue, pursuant to 2015 Wisconsin Act 55.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

AD:JN:jm

State of Wisconsin • **DEPARTMENT OF REVENUE**

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Scott Walker
Governor

Richard G. Chandler
Secretary of Revenue

January 20, 2017

JAN 20 2017
Jt. Finance

The Honorable Alberta Darling, Co-Chair
Joint Committee on Finance
Room 317 East, State Capitol

The Honorable John Nygren, Co-Chair
Joint Committee on Finance
Room 309 East, State Capitol

Dear Co-Chairs Darling and Nygren:

Enclosed is the Fiscal Year 2016 summary report related to the audit initiative created by 2015 Wisconsin Act 55.

Please feel free to contact me with any questions that you may have.

Sincerely,

Richard G. Chandler

Richard G. Chandler
Secretary of Revenue

cc: Joint Committee on Finance Members

DOR Act 55 New Auditor Revenue Generation Report

January 20, 2017

Background

The 2015-2017 biennial budget, 2015 Wisconsin Act 55, requires the Department of Revenue to annually report to the Joint Committee on Finance the actual or estimated amounts of state tax revenues generated by, and expenditures associated with, the additional full-time audit-related positions created by Act 55. These include auditors and other audit-related positions, such as resolution officers and supervisors, which support audit functions and related appeals.

Act 55 provided additional positions in four distinct areas: 1) Nexus investigation related to sales and use tax liability; 2) Out-of-State Sales Tax auditors reviewing non-Wisconsin businesses with liability in Wisconsin; 3) Large Case Corporate auditors who audit the largest multi-state apportionment entities for corporate/franchise tax; and 4) Pass-Through entity auditors.

Gross Expenditures

Act 55 appropriated $11,810,500 to fund 102 positions. As a result of the new positions, DOR expanded our Glen Ellyn, Illinois and Madison and Appleton Offices. Additionally, DOR moved our Twin Cities office from Bloomington to Edina, Minnesota to accommodate the additional staff.

For auditors, compensation, including fringe, and recruitment costs totaled $7.9 million. Training expenses totaled $88,000. Related one-time facility renovation plus ongoing rent payments associated with the space used by the new positions totaled $652,000. Finally, related equipment and supplies totaled $543,000. The rounded total for all expenses related to revenue-generating positions was $9,159,000.

The remaining funds were largely spent on other audit-related staff included as part of the initiative (including: salary, fringe, training, supplies and services, and contract programmers) and pay parity related to the new positions and the Audit Bureau's reorganization.

Revenue Generation

Beyond the additional revenue generated by the auditor types listed later in this report, the increased auditing activity, focused on out-of-state entities, increased DOR billing generally. Those audit bills that taxpayers did not pay timely became delinquent and were sent to DOR's Compliance Bureau for collections activities. Those revenues are not included in the audit collection totals below. Only timely audit payments are counted in the categories below.

However, only considering timely payments paints an incomplete picture regarding the revenue generation of the new auditors. To provide context, during the first six months of Fiscal Year 2017 thus far, Compliance collections of delinquent tax bills are up $5.2 million over the first six months of Fiscal Year 2016. The additional audit billing by Act 55 auditors is a factor of increasing influence behind delinquent collections growth. Just in the past two weeks, close to $2 million from one entity alone was derived from collections action on a delinquent bill generated by an out-of-state sales tax audit. However, increased Compliance delinquent collections are not a prescribed component of this report and are only mentioned here for contextual purposes.

Nexus Auditors
The Act 55 goal for Nexus auditors was $6.0 million for FY 2016. These auditors generated $6.2 million.

Out-of-State Auditors
The Act 55 goal of Out-of-State sales tax auditors was $7.5 million for FY 2016. These auditors generated $13.8 million.

Corporate Auditors
The Act 55 goal was $9.0 million for FY 2016. The new corporate auditors billed $15 million in additional liabilities. Due to the timing lag between billing due dates and payment dates, all additional revenues from these billings will be realized in FY 2017; none were realized in FY 2016.

Pass-Through Auditors
The Act 55 goal was $9.0 million for FY 2016. These auditors generated $6.86 million

Grand Total
Act 55's goal was additional audit collections of $31.5 million. The new audit-related positions at DOR generated $26.86 million, under the goal by about $4.64 million. The shortfall was largely attributable to Corporate audit's lag in billing versus receipts.

The Compliance Bureau exceeded its legislative goal by $22 million in collections of delinquent tax revenues (which include delinquent audit bills from both new auditors and all other sources), which more than made up for the lower than projected audit collections.