

# STATE OF WISCONSIN

SENATE CHAIR  
**Alberta Darling**

317 East, State Capitol  
P.O. Box 7882  
Madison, WI 53707-7882  
Phone: (608) 266-5830



ASSEMBLY CHAIR  
**John Nygren**

309 East, State Capitol  
P.O. Box 8953  
Madison, WI 53708-8953  
Phone: (608) 266-2343

## JOINT COMMITTEE ON FINANCE

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Alberta Darling  
Representative John Nygren

Date: December 29, 2017

Re: DOR Report to JFC

Attached is the Fiscal Year 2017 summary report to JFC 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**

2135 RIMROCK ROAD • Mail Stop 624A • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX (608) 266-5718  
<http://www.revenue.wi.gov>

*Scott Walker*  
Governor

*Richard G. Chandler*  
Secretary of Revenue

December 29, 2017

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

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

DEC 29 2017  
J. Finance

Dear Co-Chairs Darling and Nygren:

Enclosed is the Fiscal Year 2017 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  
Secretary of Revenue

cc: Joint Committee on Finance Members

# 2015 Wisconsin Act 55: New Auditor Revenue Generation Report

December 29, 2017

## **Background**

The 2015-2017 biennial budget, 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.

This report provides information on the revenues generated by and the expenditures associated with the Act 55 audit related positions in Fiscal Year 2017.

Act 55 provided additional positions in four distinct areas: 1) Nexus investigations related to sales and use and corporation franchise and income taxes; 2) Out-of-State sales tax audits of non-Wisconsin businesses with liability in Wisconsin; 3) Corporation franchise and income tax audits of the largest multi-state apportionment entities with liability in Wisconsin; and 4) Pass-through entity audits.

## **Gross Expenditures**

Act 55 appropriated \$13,605,100 to fund 102 positions for FY2017.

For auditors, compensation, including fringe, and recruitment costs totaled \$8,374,800. Training expenses totaled \$49,200. One-time facility renovations plus ongoing rent payments associated with the space used by the new positions totaled \$281,200. Equipment and supplies for the new employees totaled \$380,100. The rounded total of expenses related to auditor and audit-related positions was \$9,085,300.

The remaining funds were largely spent on other audit-related staff who assisted with the initiative including salary, fringe, training, supplies and services, and contract programmers.

## **Revenue Generation**

The focus of the increased audit activity was on out-of-state entities. Audit bills that were not paid by the due dates became delinquent and were sent to DOR's Compliance Bureau for collection. Those revenues are separately stated below but were generated because of the increased audit activity.

### **Nexus Auditors**

The Act 55 goal for Nexus auditors for FY 2017 was \$8.0 million. These auditors generated \$18.6 million.

### **Out-of-State Sales and Use Tax Auditors**

The Act 55 goal for Out-of-State sales tax auditors for FY 2017 was \$15.0 million. These auditors generated \$14.9 million. This total includes \$5.6 million collected after the bill due dates.

**Corporation Franchise/Income Tax Auditors**

The Act 55 goal for Corporation franchise and income tax auditors for FY 2017 was \$44.0 million. These auditors generated \$28.6 million. This includes \$5.2 million collected after the bill due dates. We attribute the under-collection to these audits taking longer to bring to completion and collection. In addition, it takes longer for these auditors to gain the knowledge and confidence to work the most complex and productive multi-state audits. We expect the amounts generated will reach the annual goal amount in future years.

**Pass-Through Entity Auditors**

The Act 55 goal for the Pass-through entity auditors for FY 2017 was \$15.0 million. These auditors generated \$18.1 million. This includes \$5.0 million collected after the bill due dates.

**Overall Total**

The Act 55 goal for FY 2017 was additional audit collections of \$82.0 million. The new auditor and audit-related positions generated \$80.2 million.

**Additional Comment**

DOR technology now allows tracking audits-in-progress and the various stages of the audits. DOR uses this technology both to manage the progress of any one audit and to track the audit program overall. DOR can observe the growth in the Act 55 auditors in terms of their abilities to conduct more complex audits and move audits to completion. As a result, DOR is providing better customer service and being more efficient in our audits.