

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 28, 2018

Re: DOR Report to JFC

Attached is the fiscal year 2018 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

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 28, 2018

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

DEC 28 2018
J. Finance

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

Dear Co-Chairs Darling and Nygren:

Enclosed is the Fiscal Year 2018 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 28, 2018

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 supervisors and resolution officers, 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 FY 2018.

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 FY 2018.

For auditors, compensation, including fringe and recruitment costs, totaled \$9,151,000. Training expenses totaled \$94,000. One-time facility renovations and maintenance plus ongoing rent payments associated with space used by the new positions totaled \$452,000. Equipment, travel, and supplies for the new employees totaled \$242,000. Expenses related to auditor and audit-related positions totaled \$9,939,000.

The remaining funds were spent on other audit-related staff assisting with this 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. Both timely-paid audit assessments and revenues collected from delinquent audit assessments determine overall revenue generation for each category specified.

Nexus Auditors

The Act 55 goal for nexus auditors for FY 2018 was \$8.0 million. These auditors generated \$35.1 million. We continue to see significant potential in identifying businesses that should be collecting, filing, and paying Wisconsin taxes but are not. In addition, these businesses that are brought into compliance generate ongoing revenues in future years.

Out-of-State Sales and Use Tax Auditors

The Act 55 goal for out-of-state sales and use tax auditors for FY 2018 was \$15.0 million. These auditors generated \$29.8 million. This total includes \$3.3 million collected after assessment due dates. Again, we see potential for more revenues here as out-of-state businesses begin to collect, report, and remit sales or use taxes under the US Supreme Court decision in *Wayfair*.

Pass-Through Entity Auditors

The Act 55 goal for the Pass-Through Entity auditors for FY 2018 was \$15.0 million. These auditors generated \$16.9 million. This includes \$4.6 million collected after assessment due dates. We see potential for more revenues based on our audit selection analytics.

Corporation Franchise and Income Tax Auditors

The Act 55 goal for corporation franchise and income tax auditors for FY 2018 was an additional \$44.0 million. DOR's corporation auditors collected \$87.7 million in FY 2018 but these collections are considered "base" collections and not additional collections. However, beyond the \$87.7 million collected, DOR auditors issued \$149 million in proposed assessments that were presented to corporations and pending at the end of the fiscal year. Also, there was an additional \$170.9 million that was assessed in FY 2018 and pending on appeal before DOR's Resolution Office. It's expected that the State will collect a significant portion of these proposed and appealed assessments.

Overall Total for Act 55 Audit-Related Positions

The Act 55 goal for FY 2018 was additional audit collections of \$82.0 million. The new auditor and audit-related positions generated \$72.2 million with an additional \$319.9 million in assessments pending payment or appeal resolution as of June 30, 2018.

Additional Information

Additional billing and collection agents were approved in the 2017-19 biennial budget. Their collection goal was \$24.0 million in FY 2018. These positions actually collected \$35.9 million, eclipsing the goal by \$11.9 million.

In addition, the Compliance Bureau collected \$297.3 million in delinquent amounts owed in FY 2018, which was \$63 million more than in the record-setting prior year.

In summary, revenue generation in three of the four areas covered by the Act 55 initiative was above the goals. Total revenue generation was at 88% of the overall goal, a shortfall of \$9.8 million. Collections in excess of the legislative goal for the additional billing and collection agents and the collections increase by the Compliance Bureau overall more than exceeded the shortfall from the Act 55 initiative's revenue generation.