



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #102

Illinois-Wisconsin Income Tax Reciprocity Payments (General Fund Taxes -- Individual and Corporate Income Taxes)

[LFB 2001-03 Budget Summary: Page 23, #6]

CURRENT LAW

Wisconsin has an income tax reciprocity agreement with Illinois, under which residents of one state that work in the other are required to file a tax return and pay taxes only in the state of legal residence. In addition, Wisconsin and Illinois have a reciprocity payment agreement, under which a compensation payment is required when the net foregone tax revenues of one state exceed those of the other state. Under the payment provision, for tax years 2000 and thereafter, the amount of foregone tax revenue is computed on or before December 1 of the year following the close of the previous calendar year. For tax year 2000, the amount of the compensation payment will be determined on or before December 1, 2001, and paid during 2001-02.

GOVERNOR

Provide \$11,750,000 GPR in 2001-02 and \$12,500,000 GPR in 2002-03 to reflect estimated Illinois-Wisconsin tax reciprocity payments. [These funds were mistakenly placed in the appropriation for the Illinois income tax reciprocity benchmark study.]

DISCUSSION POINTS

1. 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.

2. 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.

3. Wisconsin has had an income tax reciprocity agreement with Illinois since 1973. The payment provision that applies to Illinois was enacted in 1997 Wisconsin Act 63 on April 1, 1998. The payment provision was adopted because Illinois officials stated that reciprocity with Wisconsin would be ended unless an agreement for payment was made.

4. As provided under Act 63, the Secretary of the Wisconsin Department of Revenue entered into a reciprocity agreement with the Director of the Illinois Revenue Department in 1998. The agreement provided for a benchmark study of 1998 tax returns to be conducted in 2000 and 2001, and specified that estimation of taxes foregone, payment amounts and adjusting payments were to use the study's methods and procedures. In addition, the agreement detailed procedures for data verification and reporting, the computation of interest on delinquent payments, impasse resolution and for modification to the agreement.

5. At the time that Act 63 was adopted, Illinois estimated that the state of Wisconsin was foregoing taxes of \$13 million annually from Illinois residents working in Wisconsin and that Illinois was foregoing taxes of \$24 million annually from Wisconsin residents working in Illinois. As provided under Act 63, Wisconsin made payments to Illinois of \$5.5 million in 1998-99 and \$8.25 million in 1999-00, which reflected 50% and 75%, respectively, of the \$11 million annual revenue loss estimated by Illinois at that time. [The Wisconsin DOR had estimated that the difference in foregone taxes could be between \$9.5 million and \$29.0 million annually.] It was anticipated that subsequent payments, which were to be based on the results of the 1998 benchmark study (with an estimated completion date in 2000-01), would begin in 2001-02. No payment was made in the 2000-01 fiscal year.

6. Based on preliminary results of the benchmark study, the administration estimates payments to Illinois of \$11,750,000 in 2001-02 and \$12,500,000 in 2002-03. These payments are largely offset by tax collections from Wisconsin residents who work in Illinois

7. It should be noted that ending reciprocity with Illinois would result in lower income tax collections by an amount approximately equal to Wisconsin's payment because taxes would not be collected on the wages of Wisconsin residents working in Illinois.

MODIFICATION TO BILL

Reduce the amounts in the appropriation for the Illinois-Wisconsin income tax benchmark study by \$11,750,000 GPR in 2001-02 and \$12,500,000 GPR in 2002-03 and specify

that these amounts would, instead, be provided under the sum sufficient appropriation for Illinois income tax reciprocity payments. In addition, eliminate base funding of \$50,700 GPR in each year for the Illinois-Wisconsin income tax benchmark appropriation.

Explanation: Under the bill, funding for the Illinois-Wisconsin reciprocity payments was mistakenly placed in the appropriation for the benchmark study. The modification would correct this error. The modification would also eliminate the \$50,700 GPR base funding for 2001-02 and 2002-03 that is currently in the appropriation for the benchmark study. The administration indicates that the study is near completion and that its intent was to eliminate these amounts.

Modification	GPR
2001-03 FUNDING (Change to Bill)	- \$101,400

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