



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 8, 2003

Joint Committee on Finance

Paper #650

Business Tax Registration Administration (DOR -- Tax Administration)

CURRENT LAW

Businesses are required to obtain a business tax registration certificate from the Department of Revenue (DOR) for certain licenses, permits, and certificates related to sales and use, withholding, fuel, and excise taxes. Businesses pay a basic registration fee, a renewal fee and, in certain cases, a supplemental fee based on the type of permit, license, or certificate required. Fees are placed in a program revenue appropriation used to fund administration of the business tax registration system. The appropriation has base level funding of \$1,478,800 PR and 22.75 PR positions.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The business tax registration system was established by 1995 Wisconsin Act 27 (the 1995-97 biennial budget). Under Act 27, DOR was required to implement a centralized business tax registration system through which a taxpayer could apply for all required permits, licenses, and certificates using one application and paying one registration fee. A two-year renewal cycle was established. The Department was directed to develop a registration fee schedule that reflected traditional differentials in fees and costs for businesses, with a minimum registration fee of \$20 and a minimum renewal fee of \$10. DOR was also directed to submit to the Joint Committee on Finance, at its first meeting under s. 13.10 in 1995-96, the proposed fee schedule and an estimate of the point at which the fees would exceed the costs of administering the fee system.

A separate program revenue appropriation was created to fund administration of the business tax registration system with registration and renewal fees as the source of revenue for the

appropriation. Annually, the unencumbered year-end balance in the appropriation in excess of 10% of fiscal year expenditures lapses to the general fund. Act 27 also converted the funding source for 16.8 GPR positions to PR and provided DOR with 3.0 PR project positions to administer the business tax registration system. The positions were funded from the program revenue appropriation.

2. The Department submitted two alternative fee schedules for approval at the Committee's October, 1995, meeting under s. 13.10. The Committee approved the registration and renewal fee schedule that is currently in effect and the new fees were scheduled to begin on January 1, 1996. Consequently, registration renewal fees were due starting in 1998. The registration and renewal fee schedule was projected to generate fee revenues that would first exceed appropriation expenditures in 1997-98. The appropriation balance was expected to be positive beginning in 1998-99. Table 1 shows the current business tax registration fee schedule.

TABLE 1

Business Tax Registration and Supplemental Fee Schedule

	<u>Initial Registration</u>	<u>Biennial Renewal</u>
Business Tax Registration Certificate	\$20	\$10
Expedited Services Fee	10	0
Supplemental Fees		
Wisconsin Liquor Wholesaler	1,000	1,000
Wisconsin Liquor Manufacturer	1,000	1,000
Wisconsin Liquor Rectifier	1,000	1,000
Out-of-State Liquor Shipper	500	500
Public Warehouse Liquor/Beer	200	200
Wisconsin Winery	200	200
Sports Club (Liquor)	600	600
Sports Club (Beer)	200	200
Airport Public Facility	600	600
Vessel (Liquor)	600	600
Vessel (Beer)	200	200

3. As introduced by the Governor, the 1999-01 biennial budget bill provided expenditure authority of \$123,900 PR in 1999-00 and \$181,100 PR in 2000-01 and 3.0 PR positions annually to convert project positions that supported the business tax registration system to permanent positions. Because of projected long-term deficits in the business tax registration administrative appropriation, the Joint Committee on Finance deleted the expenditure authority and positions. In its budget deliberations, the Legislature provided 3.0 permanent positions but no additional funding. However, the Governor deleted the nonstatutory provision that authorized the positions as part of a partial veto of another provision.

4. In December, 1999, DOR was provided the three positions with no additional expenditure authority through the s. 16.515 process. The Department indicated that it would reallocate funding that would otherwise be used for contract programming. The positions were used to complete the business tax registration system, incorporate law changes and improvements into the system, and include the business tax registration system as a basic component in DOR's integrated tax system.

5. In approving the Department's s.16.515 request, DOA indicated that the Governor and Legislature had previously concurred in DOR's need for the requested positions. Since the approval of the request did not affect the funding level of the appropriation, the ending cash balance in the appropriation would be unaffected. DOA expressed concern that the business tax registration appropriation was projected to have a deficit for ten years. Consequently, DOR was directed to include a proposal for addressing the deficit in its 2001-03 budget request.

6. The 2001-03 budget bill introduced by the Governor provided the business tax registration appropriation with annual expenditure authority of \$1,496,000 PR (base level funding with standard budget adjustments) and 23.4 PR positions. DOR projected that, when compensation reserves were included, estimated revenues would not be sufficient to cover expenditures in each year of the 2001-03 biennium. The projected 2002-03 year-end appropriation balance was a deficit of almost \$600,000 and DOR expected a substantial year-end deficit to remain in the appropriation through 2010. The bill did not include any provisions to specifically address the deficit. To partially deal with the projected deficit, the Legislature modified the bill to reduce annual expenditure authority by \$28,800 PR and eliminate 0.65 PR vacant position.

7. Under the provisions of Senate Bill 44, total expenditure authority for the business tax registration appropriation would be \$1,586,000 PR in 2003-04 and \$1,589,600 in 2004-05; 22.75 PR positions would be funded from this appropriation. As noted, the funding sources for the appropriation are registration, renewal, and supplemental fees. Table 2 shows the projected revenue, expenditures (including compensation reserves and other adjustments), and appropriation balances under the bill. The table shows that the projected appropriation balance will be a deficit of \$902,400 at the end of 2004-05. The bill does not include provisions that would specifically address the ongoing deficit in the business tax registration appropriation.

TABLE 2

Business Tax Registration Administration Appropriation

	<u>2003-04</u>	<u>2004-05</u>
Beginning Balance	-\$688,100	-\$612,100
Revenues	1,700,000	1,360,000
Expenditures	<u>1,624,000</u>	<u>1,650,300</u>
Closing Balance	-\$612,100	-\$902,400

8. To reduce the deficit in the business tax registration administration appropriation, ongoing expenditures could be decreased. The Department has identified 2.3 PR positions (1.0 senior information systems development services position and 1.3 revenue tax representative positions) that are funded from the appropriation and are vacant. The 2.3 PR positions and \$94,000 PR in annual salaries and fringe benefit expenditure authority could be deleted from the appropriation. This would reduce the projected 2004-05 year-end deficit to \$714,400. Average annual ongoing revenues and base level expenditures would be approximately the same. However, the ongoing deficit in the business tax registration appropriation would not be eliminated. Under s.16.513 (3) of the statutes, DOR would be required to develop a plan for dealing with the long-term deficit in the appropriation and submit it to the Secretary of Administration. DOR could submit this plan with its 2005-07 budget request.

9. The business tax registration system is a core component of the Department's integrated tax system (ITS). The integrated tax system involves the use of technology to develop and implement a comprehensive modernization, upgrade, and reorganization of DOR's tax administration personnel, activities, processes, and systems into functional components. The business tax registration system will be incorporated into the ITS and adapted to function as the system's registration component. The business tax registration system provides single, centralized registration for all taxpayers regardless of the number and types of taxes, and maintains accounts containing information about each taxpayer across all tax types in one central source. It is anticipated that the ITS will improve taxpayer services, the efficiency of tax collection activities, and financial controls.

ALTERNATIVES

1. Delete 2.30 PR positions and \$94,000 PR annually from the business tax registration administrative appropriation.

<u>Alternative 1</u>	<u>PR</u>
2003-05 FUNDING (Change to Bill)	- \$188,000
2004-05 POSITIONS (Change to Bill)	- 2.30

2. Maintain current law.

Prepared by: Ron Shanovich