



Legislative Fiscal Bureau

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

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Joint Committee on Finance

Paper #314

Illinois-Wisconsin Income Tax Reciprocity (General Fund Taxes -- Income and Franchise Taxes)

[LFB 2011-13 Budget Summary: Page 186, #8]

CURRENT LAW

Under state individual income tax provisions, income may be taxed on the basis of where it is earned or on the basis of the taxpayer's legal residence. Wisconsin, like most other states with an individual income tax, provides a credit for taxes paid to another state while the taxpayer was a Wisconsin resident in order to prevent double taxation of the same income. In addition, reciprocity agreements may be entered into between two states to reduce the filing requirements of persons who live in one state and work in another state. Under such agreements, the taxpayer is only required to file a return and pay taxes on income from personal services in the state of legal residence. Wisconsin currently has income tax reciprocity agreements with four states: Illinois, Indiana, Kentucky, and Michigan. The reciprocity agreement with Illinois requires a compensation payment when the net foregone tax revenues of one state exceed those of the other state. Historically, Wisconsin has made a payment to Illinois under the agreement because there are more Wisconsin residents who work in Illinois than Illinois residents who work in Wisconsin.

GOVERNOR

Decrease the estimated payment by \$2,400,000 in 2011-12 and increase the estimated payment by \$36,300,000 in 2012-13 under the Illinois-Wisconsin individual income tax reciprocity agreement. Payments are estimated at \$36,300,000 in 2011-12 and \$75,000,000 in 2012-13. The increase in 2012-13 is due primarily to the increase in the Illinois individual income tax rate from 3% to 5%, effective in tax year 2011.

MODIFICATION

Reestimate Wisconsin's payments under the Illinois-Wisconsin income tax reciprocity agreement at \$47,900,000 in 2011-12 and \$71,600,000 in 2012-13. Compared to the bill, the reestimate would increase the payment in 2011-12 by \$11,600,000 GPR and decrease the payment in 2012-13 by \$3,400,000 GPR.

Explanation: The reestimated payments are based on updated revenue estimates. Like Wisconsin, Illinois is experiencing more growth in current year tax collections, due in part to lower refunds and higher final payments, than was previously expected. This is anticipated to cause a higher payment in 2011-12 than was previously expected. Also, some of the additional revenues related to Illinois' tax rate increase will affect Wisconsin's payment in 2011-12. Recognizing those revenues in the 2011-12 payment will cause a lesser amount of revenues to be included in the payment calculations for 2012-13, resulting in a slight reduction in that payment relative to the Governor's original estimate.

Change to Bill Funding	
GPR	\$8,200,000

Prepared by: Rick Olin