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May 30, 2013 Joint Committee on Finance Paper #284

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

[LFB 2013-15 Budget Summary: Page 174, #10]

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. The most recent payment was made in December, 2012, and totaled $74.4 million.

GOVERNOR

Increase the estimated payment by $1,981,000 in 2013-14 and $4,722,000 in 2014-15 under the Illinois-Wisconsin individual income tax reciprocity agreement. Payments are estimated at $73,581,000 in 2013-14 and $76,322,000 in 2014-15.

MODIFICATION

Re-estimate Wisconsin's payments under the Illinois-Wisconsin income tax reciprocity agreement at $81,200,000 in 2013-14 and $77,500,000 in 2014-15. Compared to the bill, the re-estimate would increase the payment by $7,619,000 GPR in 2013-14 and by $1,178,000 GPR in 2014-15.

Explanation: The re-estimated payments are based on updated revenue estimates. These include the estimates incorporated in the Illinois Governor's budget proposal, which was released on March 6, 2013, and the revenue estimates released by this office on May 9, 2013. Both states are forecasting more revenue growth than was estimated when Governor Walker was constructing AB 40, and higher revenues will cause higher payments than previously estimated. In addition, a representative of the Illinois Office of Management and Budget reports that Illinois' March estimate understates current year tax collections due to the realization of one-time revenues related to capital gains. Finally, this re-estimate incorporates the AB 40 proposal to reduce income tax rates beginning in tax year 2013.

	Change to Bill Funding
GPR	$8,797,000

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