

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Minnesota/Wisconsin Reciprocity

March 9, 2011

| | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | | X |

Department of Revenue

Analysis of H.F. 820 (Davids), As Proposed to be Amended (H0820DE1)

| | <u>Fund Impact</u> | | | |
|--------------|---------------------------|------------------|------------------|------------------|
| | <u>F.Y. 2012</u> | <u>F.Y. 2013</u> | <u>F.Y. 2014</u> | <u>F.Y. 2015</u> |
| | (000's) | | | |
| General Fund | --- To be determined* --- | | | |

*See Revenue Analysis Detail for explanation.

Effective the day following final enactment for the directive to the Commissioner of Revenue. Other changes contingent upon Wisconsin agreeing to the conditions for a new reciprocity agreement.

EXPLANATION OF THE BILL

Current Law: On September 18, 2009, the Commissioner of Revenue terminated the individual income tax reciprocity agreement with Wisconsin, effective for tax years beginning after December 31, 2009. The action of the Commissioner was based on Minnesota Statutes, Section 290.081(b), which provides that, when it is deemed to be in the best interest of the people of this state, the Commissioner of Revenue may determine that an individual income tax reciprocity agreement with another state shall not apply.

Under the prior agreement, Wisconsin was required to make a payment to Minnesota each year for Minnesota's net revenue loss due to reciprocity. The agreement specified that the payment date for a tax year was December 1st of the following year. Interest was payable from July 1 of the tax year to the payment date.

Wisconsin has not yet made the payment for tax year 2009 of \$58,697,000 that was due on December 1, 2010. Daily interest of \$4,584 accrues after December 1, 2010.

Proposed Law: The bill would direct the Commissioner of Revenue to initiate negotiations with the Wisconsin Secretary of Revenue, with the objective of entering into an income tax reciprocity agreement for tax years beginning after December 31, 2011.

The statutory requirements for a Minnesota/Wisconsin reciprocity agreement would be changed.

- Wisconsin would be required to make one or more estimated payments to Minnesota in the fiscal year in which the revenue loss occurs and a final payment in the following fiscal year.
- Any agreement would remain in effect until terminated by Minnesota or Wisconsin law. The Commissioner of Revenue would no longer have the authority to terminate an agreement when it is deemed to be in the best interests of the people of this state to do so.
- Interest would not apply to the estimated payments but would apply to the final payment from July 1 of the tax year.

REVENUE ANALYSIS DETAIL

The revenue impact is not known because essential variables are yet to be determined.

- A new agreement could apply starting in tax year 2012. However, a new agreement may not take effect until a later year.
- The methodology used to calculate the estimated payments and the final payment has not been determined.

The following is for purposes of illustration; it is not an estimate for the bill.

The illustration uses the February 2011 forecast of the estimated increase in income tax revenues due to the termination of the Minnesota/Wisconsin reciprocity agreement. Tax years were allocated 50/50 to fiscal years.

If an agreement was negotiated and was effective starting in tax year 2012, **if** the payment was calculated to equal Minnesota's net revenue loss, and **if** the estimated payments equaled the net revenue loss in the same fiscal year, the impact would be:

(\$ millions)

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|-----------------------------|----------|----------|----------|-----------|
| Loss in income tax revenues | (\$46.3) | (\$94.4) | (\$98.6) | (\$103.6) |
| Payment from Wisconsin | \$46.3 | \$94.4 | \$98.6 | \$103.6 |

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy