

## DEPARTMENT OF REVENUE

### GOVERNOR'S BUDGET RECOMMENDATIONS

Source of Funds	FY01 Adjusted Base	FY02 Recommended	% Change Over FY01	FY03 Recommended	% Change Over FY02
GPR	84,326,000	81,972,000	-2.8	83,005,700	1.3
PR-O	7,397,000	7,448,300	0.7	7,448,300	0.0
PR-S	210,600	288,900	37.2	288,900	0.0
SEG-O	66,530,100	65,561,100	-1.5	65,961,100	0.6
<b>TOTAL</b>	<b>158,463,700</b>	<b>155,270,300</b>	<b>-2.0</b>	<b>156,704,000</b>	<b>0.9</b>

### FULL-TIME EQUIVALENT POSITION SUMMARY

Source of Funds	FY01 Adjusted Base	FY02 Recommended	FTE Change From FY01	FY03 Recommended	FTE Change From FY02
GPR	1,095.75	1,097.15	1.40	1,097.15	0.00
PR-O	73.90	73.90	0.00	73.90	0.00
PR-S	3.05	1.65	-1.40	1.65	0.00
SEG-O	137.00	136.00	-1.00	136.00	0.00
<b>TOTAL</b>	<b>1,309.70</b>	<b>1,308.70</b>	<b>-1.00</b>	<b>1,308.70</b>	<b>0.00</b>

### AGENCY DESCRIPTION

The department is headed by a secretary who is appointed by the Governor and confirmed by the Senate. The department's activities are organized into five programs: collection of taxes, state and local finance, lottery, administrative services, and mining investment and local impact fund. The first three programs are administered by operating divisions. The administrative services program includes the Secretary's Office, the Office of General Counsel, the Office of Information Services, the Administrative Services Division and the Research and Analysis Division. An independent Investment and Local Impact Fund Board, attached to the department for administrative purposes, oversees mining investment and local impact fund activities.

The tax programs administered by the department provide revenue for the state's general, recycling and transportation funds. The department also administers the homestead, farmland preservation and earned income credits.

The net proceeds from the Wisconsin lottery provide funding for a property tax credit and the farmland tax relief credit.

The department provides the Executive Office and the Legislature with detailed analyses of revenue and tax policy options. It also administers general state policies and programs affecting local government finance. The state's property tax administration responsibilities include establishing equalized values, supervision of local administration of property taxes and assessing the value of manufacturing property statewide.

The department has identified seven high-level goals that express the outcomes it seeks to achieve:

1. Increase voluntary compliance.
2. Improve operational efficiency.
3. Improve tax collection fairness.
4. Increase external customer satisfaction.
5. Improve the effectiveness of department employees and the quality of their working environment.
6. Increase property tax relief through the lottery.
7. Increase department participation and influence in tax and lottery policy decisions.

## **MISSION**

The department's mission is to advise the Governor and the Legislature on tax policy and administer the state's tax laws and lottery in order to fund state and local government operations. In addition, the department distributes property tax relief and local unrestricted aid payments, and oversees general administration of the property tax system.

## **PROGRAMS, GOALS, OBJECTIVES AND ACTIVITIES**

### **Program 1: Collection of Taxes**

Goal: Increase voluntary compliance, improve operational efficiency and improve tax collection fairness.

Objective/Activity: Meet or exceed revenue estimates. (The agency is required by statute to issue estimates of general purpose revenue collections for the current and next two fiscal years on November 20 of every even-numbered year. Informal estimates are generated throughout the year.)

Objective/Activity: Ensure operating efficiency in the Division of Income, Sales and Excise (IS&E) by maintaining \$190 in revenue collected for each dollar spent.

Goal: Increase external customer satisfaction.

Objective/Activity: Process unadjusted regular refunds in 30 days or less.

### **Program 2: State and Local Finance**

Goal: Increase voluntary compliance and improve tax collection fairness.

Objective/Activity: Increase the median ratio of manufacturing real property assessed values (assessments) to their sales prices.

### **Program 8: Lottery**

Goal: Increase property tax relief available through the Lottery.

Objective/Activity: Increase Lottery credit proceeds.

### PERFORMANCE MEASURES

Prog. No.	Performance Measure	Actual 2000	Goal 2001	Goal 2002	Goal 2003
1.	Estimated revenue collections (in millions of dollars).*	\$10,945.9**	\$10,182.0	\$11,000.8	\$11,802.9
1.	Average number of processing days for unadjusted refunds.	40	30	30	30
1.	Total revenue collected per dollar spent (IS&E).	\$190	\$190	\$190	\$190
2.	Median ratio of manufacturing assessments to sales prices.	98.3%	98.5%	98.7%	99.0%
8.	Property tax relief - Lottery credit proceeds.***	\$216,255,158	\$89,669,200	\$107,380,241	\$108,381,226

\* FY 2001-2003 figures are the November 2000 estimates.

\*\* Actual revenue collections.

\*\*\* Does not include \$15 million in farmland tax relief. FY 2000 reflects one-time GPR funding of lottery operations.

**DEPARTMENT OF REVENUE****GOVERNOR'S BUDGET RECOMMENDATIONS****RECOMMENDATIONS**

1. Single Factor Sales Apportionment of Corporate Income
2. Tax Treatment of Partners and Members of Limited Liability Companies
3. Sales Tax on Custom Computer Software
4. Gross Receipts Tax on Wholesale Merchant Plants
5. Repair of Tangible Personal Property for Sales and Use Tax Purposes
6. Define "Member" and "Partner" as They Relate to Corporations and Insurers
7. Gray Market Cigarettes
8. Reciprocal Offset Agreements
9. Minor Individual Income Tax Statutory Changes
10. Tied House Provisions
11. Depository Selection Board
12. Land Information Modernization Plan
13. Minor Statutory Changes to the Lottery
14. Computer Operations
15. LTE Salaries
16. BadgerNet Data Transmission
17. Budget Efficiency Measures
18. Exposition Tax Administrative Fee
19. Expert Witness Appropriation
20. Internal Services Accounting
21. Internal Services Client Funding
22. Delinquent Tax Collection Technical Adjustment
23. Minor Transfers Between Appropriations
24. Lottery Sum Sufficients
25. Standard Budget Adjustments

**ITEMS NOT APPROVED**

26. Electronic Filing of Individual Income Tax Returns
27. Wage Reporting
28. Warehouse for Budget and Personnel Data
29. Postage
30. Printing Charges
31. Shared Human Resources System
32. TeleFile and Refund Inquiry
33. Parking Space Rental

**Table 1**  
**Department Budget Summary by Funding Source (in thousands of dollars)**

	ACTUAL FY00	ADJUSTED BASE FY01	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY02	FY03	FY02	FY03
GENERAL PURPOSE REVENUE	\$144,046.1	\$84,326.0	\$87,087.8	\$88,255.5	\$81,972.0	\$83,005.7
State Operations	144,046.1	84,326.0	87,087.8	88,255.5	81,972.0	83,005.7
PROGRAM REVENUE (2)	6,698.5	7,607.6	7,781.7	7,783.3	7,737.2	7,737.2
State Operations	6,698.5	7,607.6	7,781.7	7,783.3	7,737.2	7,737.2
SEGREGATED REVENUE (3)	2,322.0	66,530.1	65,539.4	65,939.4	65,561.1	65,961.1
State Operations	2,322.0	66,530.1	65,539.4	65,939.4	65,561.1	65,961.1
TOTALS-ANNUAL	153,066.6	158,463.7	160,408.9	161,978.2	155,270.3	156,704.0
State Operations	153,066.6	158,463.7	160,408.9	161,978.2	155,270.3	156,704.0

(2) Includes Program Revenue-Service and Program Revenue-Other

(3) Includes Segregated Revenue-Service, Segregated Revenue-Other and Segregated Revenue-Local

**Table 2**  
**Department Position Summary by Funding Source (in FTE positions) (4)**

	ADJUSTED BASE FY01	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY02	FY03	FY02	FY03
GENERAL PURPOSE REVENUE	1,095.75	1,097.15	1,097.15	1,097.15	1,097.15
PROGRAM REVENUE (2)	76.95	75.55	75.55	75.55	75.55
SEGREGATED REVENUE (3)	137.00	136.00	136.00	136.00	136.00
TOTALS-ANNUAL	1,309.70	1,308.70	1,308.70	1,308.70	1,308.70

(2) Includes Program Revenue-Service and Program Revenue-Other

(3) Includes Segregated Revenue-Service, Segregated Revenue-Other and Segregated Revenue-Local

(4) All positions are State Operations unless otherwise specified

**Table 3**  
**Department Budget Summary by Program (in thousands of dollars)**

	ACTUAL FY00	ADJUSTED BASE FY01	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY02	FY03	FY02	FY03
1. Collection of taxes	\$60,424.5	\$58,660.3	\$57,171.5	\$58,686.9	\$52,371.9	\$53,405.6
2. State and local finance	10,989.9	12,595.9	11,925.7	11,925.7	11,915.3	11,915.3
3. Administrative services and space rental	22,446.4	22,678.9	27,843.5	27,497.4	27,509.7	27,509.7
8. Lottery	59,205.8	64,528.6	63,468.2	63,868.2	63,473.4	63,873.4
TOTALS	153,066.6	158,463.7	160,408.9	161,978.2	155,270.3	156,704.0

**Table 4**  
**Department Position Summary by Program (in FTE positions) (4)**

	ADJUSTED BASE FY01	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY02	FY03	FY02	FY03
1. Collection of taxes	856.25	812.75	812.75	812.75	812.75
2. State and local finance	186.40	176.40	176.40	176.40	176.40
3. Administrative services and space rental	156.55	210.05	210.05	210.05	210.05
8. Lottery	110.50	109.50	109.50	109.50	109.50
TOTALS	1,309.70	1,308.70	1,308.70	1,308.70	1,308.70

(4) All positions are State Operations unless otherwise specified

### **1. Single Factor Sales Apportionment of Corporate Income**

The Governor recommends a three-year phase in to a single sales factor to apportion corporations' income to this state, and the premiums factor to apportion insurance companies' income to this state, for the purposes of determining corporate franchise and income tax liability (-\$8.0 million GPR revenue in FY03).

### **2. Tax Treatment of Partners and Members of Limited Liability Companies**

The Governor recommends taxing all corporate partners and limited liability company members on income derived from Wisconsin sources, regardless of whether the partnership or limited liability company is an extension of a corporation's business (\$7.5 million GPR revenue in FY02 and \$5.0 million in FY03).

### **3. Sales Tax on Custom Computer Software**

The Governor recommends making sales of custom computer programs subject to the sales and use tax (\$16.0 million GPR revenue in FY02 and \$36.0 million in FY03).

### **4. Gross Receipts Tax on Wholesale Merchant Plants**

The Governor recommends allowing private light, heat and power companies and electric cooperatives to pay a license fee to the state based on multiplying the gross revenues of the sale of wholesale electricity by 1.59 percent. This provision would be in effect from January 1, 2003, to December 31, 2008. All other sales of electricity will continue to be taxed at 3.19 percent.

### **5. Repair of Tangible Personal Property for Sales and Use Tax Purposes**

The Governor recommends clarifying the definition of property that is deemed to be tangible personal property for service and repair purposes, specifically with respect to property affixed to real property for the purposes of installations, replacements and servicing.

### **6. Define "Member" and "Partner" as They Relate to Corporations and Insurers**

The Governor recommends clarifying that a corporation or insurance company treated as a corporation cannot claim limited liability company or partnership tax credits.

### **7. Gray Market Cigarettes**

The Governor recommends making illegal the sale of gray market cigarettes and providing a penalty for their sale.

### **8. Reciprocal Offset Agreements**

The Governor recommends allowing the department to enter into reciprocal offsetting agreements with other states. Under such an agreement, the department would reduce a taxpayer's tax refund for amounts owed in taxes to the other state and the other state would reduce refunds for amounts owed by the taxpayer to Wisconsin. This provision creates a new tool to collect delinquent taxes. The delinquent tax records contain nearly 7,000 active accounts with primary addresses in Illinois or Minnesota.

### 9. Minor Individual Income Tax Statutory Changes

The Governor recommends three minor statutory changes to the individual income tax: (a) extend a credit to partners of a partnership who pay tax to another state if those partners are residents of Wisconsin and otherwise qualify for a credit for taxes paid to another state; (b) correct a technical error in the indexing of the top income tax bracket; and (c) complete the 1999 Wisconsin Act 9 change to the taxation of inter vivos trusts. (Act 9 made these trusts taxable only if the grantor was a Wisconsin resident but excluded trusts formed before the Act 9 effective date of October 29, 1999. This change would include those trusts.)

### 10. Tied House Provisions

The Governor recommends increasing the statutory thresholds on the amount of signage and entertainment that can be provided to licensees by brewers and wholesalers. There is no state fiscal effect.

### 11. Depository Selection Board

The Governor recommends replacing the executive director of the State Investment Board with the secretary of the Department of Revenue as a member of the Depository Selection Board. Placing the secretary on the Depository Selection Board will ensure that the board's decisions will be made with the highest concern for the collection of the state's revenues.

### 12. Land Information Modernization Plan

The Governor recommends repealing the requirement that the department submit a biennial land information integration plan to the Land Information Board. As the department's data becomes increasingly available in a variety of electronic formats, mandating the department to prepare this plan provides little public benefit.

### 13. Minor Statutory Changes to the Lottery

The Governor recommends a statutory change to require a lottery prize winner who wins \$1,000 or more to obtain a court order before the Lottery will split these prize payments among multiple payees.

### 14. Computer Operations

Source of Funds	Agency Request				Governor's Recommendation			
	FY02		FY03		FY02		FY03	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	659,500	0.00	1,693,200	0.00	659,500	0.00	1,693,200	0.00
TOTAL	659,500	0.00	1,693,200	0.00	659,500	0.00	1,693,200	0.00

The Governor recommends increased funding for mainframe computer usage charges. As the department continues to move toward a more automated tax processing and tax collection environment, its computer usage will continue to increase. Of the amount recommended, \$309,600 in FY02 and \$1,475,400 is for operating the department's Integrated Tax System. The new components of the Integrated Tax System that are expected to come on-line in the 2001-03 biennium will increase GPR tax collections by an estimated \$10.9 million in FY02 and \$21.4 million in FY03.

**15. LTE Salaries**

Source of Funds	Agency Request				Governor's Recommendation			
	FY02		FY03		FY02		FY03	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	376,200	0.00	376,200	0.00
PR-O	0	0.00	0	0.00	16,900	0.00	16,900	0.00
SEG-O	0	0.00	0	0.00	17,800	0.00	17,800	0.00
TOTAL	0	0.00	0	0.00	410,900	0.00	410,900	0.00

The Governor recommends a 15 percent increase in the department's funding for limited term employees (LTEs) to ensure that tax refunds can be delivered in a timely manner. Without this increase, the department will have difficulty recruiting and retaining employees to process tax returns in a competitive job market. The amount recommended decreases GPR-earned by \$7,500.

**16. BadgerNet Data Transmission**

Source of Funds	Agency Request				Governor's Recommendation			
	FY02		FY03		FY02		FY03	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	119,500	0.00	119,500	0.00	119,500	0.00	119,500	0.00
TOTAL	119,500	0.00	119,500	0.00	119,500	0.00	119,500	0.00

The Governor recommends additional funding for BudgetNet data transmission lines. The department has increased the capacity of its data transmission lines to accommodate increased computer network traffic and to provide emergency backup capabilities.

**17. Budget Efficiency Measures**

Source of Funds	Agency Request				Governor's Recommendation			
	FY02		FY03		FY02		FY03	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	-4,216,300	0.00	-4,216,300	0.00
TOTAL	0	0.00	0	0.00	-4,216,300	0.00	-4,216,300	0.00

The Governor recommends reducing the agency's largest GPR state operations appropriation in the amounts shown to create additional operational efficiencies. If within 90 days of the publication of the budget bill the agency submits a plan to the Department of Administration and the Joint Committee on Finance to reallocate some or all of the reductions to other sum certain state operations appropriations within the agency, the secretary of the Department of Administration will forward any approved reallocation plans to the Joint Committee on Finance for its review and approval.

**18. Exposition Tax Administrative Fee**

The Governor recommends that excess revenue in the department's appropriation for the administration of local exposition district taxes be directed to the exposition district. This recommendation will send all year-end cash balances in the appropriation to the district after retaining a reserve amount equal to 10 percent of the amount expended during the fiscal year. This provision will send an estimated \$367,200 in FY02 and \$62,000 in FY03 to the local exposition district that would otherwise remain in the balance of the appropriation.

**19. Expert Witness Appropriation**

The Governor recommends changing the department's appropriation for expert witness fees from an annual to a biennial appropriation to provide the department with additional flexibility in managing its legal resources. The department utilizes expert witnesses to better defend the state in legal challenges to Wisconsin tax laws.

**20. Internal Services Accounting**

Source of Funds	Agency Request				Governor's Recommendation			
	FY02		FY03		FY02		FY03	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
PR-S	187,500	0.00	187,500	0.00	187,500	0.00	187,500	0.00
TOTAL	187,500	0.00	187,500	0.00	187,500	0.00	187,500	0.00

The Governor recommends expanding the scope of the department's internal services appropriation to allow the appropriation to make charges against all department funding sources. The Governor further recommends increasing the appropriation's funding to allow centralized services such as copying, training, identification card equipment, and other shared supplies and equipment to be purchased through this appropriation. The appropriation is currently limited to serving PR and SEG activities. Expansion of the appropriation will allow improved management and accounting of internal services.

**21. Internal Services Client Funding**

Source of Funds	Agency Request				Governor's Recommendation			
	FY02		FY03		FY02		FY03	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
PR-O	36,200	0.00	36,200	0.00	36,200	0.00	36,200	0.00
SEG-O	6,700	0.00	6,700	0.00	6,700	0.00	6,700	0.00
TOTAL	42,900	0.00	42,900	0.00	42,900	0.00	42,900	0.00

The Governor recommends increased funding to the appropriations that the department's internal services appropriation bills for budget, accounting, payroll and personnel services. The increases are necessary to accommodate pay adjustments in the internal services appropriation since its creation in 1995 Wisconsin Act 27.

**22. Delinquent Tax Collection Technical Adjustment**

Source of Funds	Agency Request				Governor's Recommendation			
	FY02		FY03		FY02		FY03	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	1.40	0	1.40	0	1.40	0	1.40
PR-S	-103,700	-1.40	-103,700	-1.40	-103,700	-1.40	-103,700	-1.40
TOTAL	-103,700	0.00	-103,700	0.00	-103,700	0.00	-103,700	0.00

The Governor recommends a technical correction related to the 1999 Wisconsin Act 9 transfer of delinquent tax collection activities from PR to GPR funding. Specifically, the Governor recommends transferring 1.4 FTE positions from PR-S to GPR funding. The department will internally reallocate GPR funding provided by 1999 Wisconsin Act 9 to support these positions. Existing PR-S funding in the department's internal services appropriation from which these positions are transferred will be deleted.

**23. Minor Transfers Between Appropriations**

The Governor recommends minor transfers between appropriations of the same funding sources to consolidate GPR funding for employee assistance program services, centralize GPR rent funding, reflect the creation of the Office of Information Systems, centralize employee parking functions, and consolidate public affairs and communications funding.

**24. Lottery Sum Sufficient**

Source of Funds	Agency Request				Governor's Recommendation			
	FY02		FY03		FY02		FY03	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
SEG-O	-1,039,000	0.00	-629,900	0.00	-1,039,000	0.00	-629,900	0.00
TOTAL	-1,039,000	0.00	-629,900	0.00	-1,039,000	0.00	-629,900	0.00

The Governor recommends adjustments to Lottery sum sufficient appropriations 861-retailer compensation and 865-vendor fees to reflect Lottery sales reestimates for the 2001-03 biennium.

## 25. Standard Budget Adjustments

Source of Funds	Agency Request				Governor's Recommendation			
	FY02		FY03		FY02		FY03	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	660,200	0.00	660,200	0.00	707,100	0.00	707,100	0.00
PR-O	-1,800	0.00	-1,800	0.00	-1,800	0.00	-1,800	0.00
PR-S	-5,500	0.00	-5,500	0.00	-5,500	0.00	-5,500	0.00
SEG-O	35,700	-1.00	26,600	-1.00	45,500	-1.00	36,400	-1.00
<b>TOTAL</b>	<b>688,600</b>	<b>-1.00</b>	<b>679,500</b>	<b>-1.00</b>	<b>745,300</b>	<b>-1.00</b>	<b>736,200</b>	<b>-1.00</b>

The Governor recommends adjustments to the agency's base budget for: (a) turnover reduction (-\$1,412,900 in each year); (b) removal of noncontinuing elements from the base (-\$256,300 in FY02 and -\$265,400 in FY03 and -1.0 FTE position in each year); (c) full funding of continuing position salaries and fringe benefits (\$2,197,000 in each year); (d) BadgerNet increases (\$43,500 in each year); (e) fifth week of vacation as cash (\$155,500 in each year); and (f) full funding of lease and directed moves costs (\$18,500 in each year).

## ITEMS NOT APPROVED

The following requests are not included in the Governor's budget recommendations for the Department of Revenue.

Decision Item	Source of Funds	FY02		FY03	
		Dollars	Positions	Dollars	Positions
26. Electronic Filing of Individual Income Tax Returns	GPR	730,000	0.00	900,000	0.00
27. Wage Reporting	GPR	0	0.00	280,600	0.00
28. Warehouse for Budget and Personnel Data	GPR	375,500	0.00	27,800	0.00
29. Postage	GPR	102,300	0.00	102,300	0.00
	PR-O	8,000	0.00	8,000	0.00
	SEG-O	5,900	0.00	5,900	0.00
30. Printing Charges	GPR	76,500	0.00	76,500	0.00
31. Shared Human Resources System	GPR	22,500	0.00	22,500	0.00
32. TeleFile and Refund Inquiry	GPR	15,800	0.00	46,900	0.00
33. Parking Space Rental	PR-O	53,400	0.00	55,000	0.00
<b>TOTAL OF ITEMS NOT APPROVED</b>	GPR	<b>1,322,600</b>	<b>0.00</b>	<b>1,456,600</b>	<b>0.00</b>
	PR-O	<b>61,400</b>	<b>0.00</b>	<b>63,000</b>	<b>0.00</b>
	SEG-O	<b>5,900</b>	<b>0.00</b>	<b>5,900</b>	<b>0.00</b>