

DEPARTMENT OF REVENUE

GOVERNOR'S BUDGET RECOMMENDATIONS

Source of Funds	FY05 Adjusted Base	FY06 Recommended	% Change Over FY05	FY07 Recommended	% Change Over FY06
GPR	86,514,400	82,089,200	-5.1	80,758,500	-1.6
PR-O	9,253,900	9,813,600	6.0	9,735,700	-0.8
PR-S	3,674,300	3,330,100	-9.4	3,330,100	0.0
SEG-O	67,313,700	67,104,000	-0.3	67,914,900	1.2
TOTAL	166,756,300	162,336,900	-2.7	161,739,200	-0.4

FULL-TIME EQUIVALENT POSITION SUMMARY

Source of Funds	FY05 Adjusted Base	FY06 Recommended	FTE Change From FY05	FY07 Recommended	FTE Change From FY06
GPR	970.00	902.08	-67.92	880.63	-21.45
PR-O	88.45	96.45	8.00	95.45	-1.00
PR-S	1.65	1.45	-0.20	1.15	-0.30
SEG-O	135.75	124.90	-10.85	64.85	-60.05
TOTAL	1,195.85	1,124.88	-70.97	1,042.08	-82.80

AGENCY DESCRIPTION

The department is headed by a secretary who is appointed by the Governor with the advice and consent of the Senate. The department advises the Governor and Legislature on tax policy, administers the state's tax laws and lottery, distributes property tax relief and local unrestricted aid payments, and oversees general administration of the property tax system.

The department's activities are organized into the following five major program areas:

- The Division of Income, Sales and Excise Tax enforces tax laws and collects taxes through audit and compliance activities;
- The Division of Processing and Customer Service collects taxes through processing tax returns and provides taxpayer assistance;
- The Division of State and Local Finance administers state policy and programs affecting local government finance and the state's property tax system, including establishing equalized values, supervising general administration of the local property tax and assessing the value of manufacturing property statewide;
- The Lottery Division administers the lottery program which provides funding for a property tax credit and the farmland tax relief credit; and
- The administrative services area includes the Secretary's Office, Office of General Counsel, Office of Technology Services, Division of Enterprise Services, and Division of Research and Policy.

The department also provides the Executive Office and Legislature with detailed analyses of revenue and tax policy options.

The tax programs administered by the department provide revenue for the state's general fund, recycling fund and transportation fund. The department also administers the homestead, farmland preservation and earned income credits, which are paid to eligible applicants from the general fund.

An independent Investment and Local Impact Fund Board, attached to the department for administrative purposes, governs the distribution of mining net proceeds occupational tax monies.

MISSION

The department's mission is to administer state and local taxes in a fair, equitable and efficient manner while advocating sound tax and fiscal policies and providing property tax relief.

PROGRAMS, GOALS, OBJECTIVES AND ACTIVITIES

Since the submission of its 2003-05 biennial budget request, the department has done significant work in developing department-level goals and aligning strategic measures to those goals. As a result of this work, the goals listed with this biennial budget request are slightly altered and will, in some cases, relate to more than one program area and as such may be listed more than once. The measures, however, are more program specific.

The department has identified the following six high-level strategic goals that reflect the outcomes it seeks to achieve: develop and advocate sound tax and fiscal policy; ensure fair and equitable tax compliance, collection and property valuation; operate a successful lottery; ensure a positive and diverse work environment; deliver outstanding customer service; and operate efficiently.

Program 1: Collection of Taxes

Goal: Ensure fair and equitable tax compliance, collection and property valuation.

Objective/Activity: Percentage increase in delinquent collections over the prior year.

Objective/Activity: Percentage increase in participation in earned income credit and homestead credit programs.

Goal: Operate efficiently.

Objective/Activity: Percentage reduction in cycle times, including the number of days to issue refunds, business tax registrations, appeals process and more.

Program 2: State and Local Finance

Goal: Ensure fair and equitable tax compliance, collection and property valuation.

Objective/Activity: Percentage of planned manufacturing assessments completed to meet five-year cycle requirement.

Program 3: Administrative Services and Space Rental

Goal: Develop and advocate sound tax and fiscal policy.

Objective/Activity: Percentage of tax and fiscal policy initiatives that the department has focused on and positively impacted.

Objective/Activity: Variance between estimated revenue and actual revenue.

Goal: Ensure a positive and diverse work environment.

Objective/Activity: Percentage of employees satisfied with their work environment.

Objective/Activity: Percentage of affirmative action target group members in underutilized job classifications.

Goal: Operate efficiently.

Objective/Activity: Revenue collected per dollar spent.

Program 8: Lottery

Goal: Operate a successful lottery.

Objective/Activity: Percentage increase in the funds generated for lottery property tax relief over prior year.

Objective/Activity: Percentage of lottery costs as compared to lottery revenues.

PERFORMANCE MEASURES

HISTORICAL DATA

Prog. No.	Performance Measure	Actual 2000	Actual 2001	Actual 2002
1.	Average number of processing days for unadjusted refunds.	39	46	37
1.	Average audit cost per dollar collected through enforcement activity.	13¢	17¢	5¢
1.	Percentage of individual income tax returns E-filed or paper that is scanned.	39%	46%	58%
1.	Percentage of individual income tax returns received electronically.	21%	26%	33%
2.	Median ratio of manufacturing assessments to sale prices.	95.7%	96.8%	99.78%
3.	Percentage of employees satisfied or greatly satisfied with their job.	70%	73%	N/A ¹
8.	Property tax relief as a percentage of lottery operating revenues.	57%	25%	28%

Note: Based on fiscal year.

¹Data for employee satisfaction is not available as the University of Wisconsin Study on Organizational Excellence was not conducted during fiscal year 2001-02.

2003 AND 2004 GOALS AND ACTUALS

Since the submission of its 2003-05 biennial budget request, the department has done significant work in developing department-level goals and aligning strategic measures to those goals. As a result of this work, new performance measures were developed.

Prog. No.	Performance Measure	Goal 2003	Actual 2003	Goal 2004	Actual 2004
1.	Percentage increase in delinquent collections over the prior year.	2.4%	-16.4%	8.4%	27%
1.	Percentage increase in participation in earned income credit (EIC) and homestead credit (HC) programs.	N/A	4.7% (EIC) 6.4% (HC)	N/A	-2.1% (EIC) -5.1% (HC)
1.	Percentage reduction in cycle times (processing days for unadjusted refunds).	21%	32%	21%	22%
2.	Percentage of planned manufacturing assessments completed to meet five-year cycle requirement.	100%	80.2%	100%	67.4%
3.	Percentage of tax and fiscal policy initiatives that the department has focused on and positively impacted.	N/A	N/A	N/A	88%
3.	Variance between estimated revenue and actual revenue.	2%	2%	2%	1.1%
3.	Percentage of employees satisfied with their work environment.	73%	58%	64%	78%
3.	Percentage of affirmative action target group members in underutilized job classifications.	N/A	55%	N/A	59%
3.	Revenue collected per dollar spent.	N/A	\$115.64	N/A	\$120.74
8.	Percentage increase in the funds generated for lottery property tax relief over prior year.	N/A	35.1%	3.6%	5.58%
8.	Percentage of lottery costs as compared to lottery revenues.	8%	7.69%	8%	6.93%

Note: Based on fiscal year.

2005, 2006 AND 2007 GOALS

Prog. No.	Performance Measure	Goal 2005	Goal 2006	Goal 2007
1.	Percentage increase in delinquent collections over the prior year.	12.5%	15%	15%
1.	Percentage increase in participation in earned income credit (EIC) and homestead credit (HC) programs.	7% (EIC) 15% (HC)	7% (EIC) 15% (HC)	7% (EIC) 15% (HC)
1.	Percentage reduction in cycle times (processing days for unadjusted refunds).	10%	12%	12%
2.	Percentage of planned manufacturing assessments completed to meet five-year cycle requirement.	100%	100%	100%
3.	Percentage of tax and fiscal policy initiatives that the department has focused on and positively impacted.	90%	90%	90%
3.	Variance between estimated revenue and actual revenue.	2%	2%	2%
3.	Percentage of employees satisfied with their work environment.	More than 78%	More than 2005	More than 2006
3.	Percentage of affirmative action target group members in underutilized job classifications.	60%	65%	70%
3.	Revenue collected per dollar spent.	\$133	\$146	\$161
8.	Percentage increase in the funds generated for lottery property tax relief over prior year.	5%	5%	5%
8.	Percentage of lottery costs as compared to lottery revenues.	7.5%	7%	6.75%

Note: Based on fiscal year.

DEPARTMENT OF REVENUE

GOVERNOR'S BUDGET RECOMMENDATIONS

RECOMMENDATIONS

1. Single Sales Factor for Computer Software
2. Streamlined Sales Tax
3. Collections Initiative
4. Protection of Sales Tax Base
5. Expert Witness Fees
6. Lottery Operations Streamlining Initiative
7. Direct Marketing of Tobacco Products
8. Liquor Distribution and Regulation
9. Internal Revenue Code Update
10. Budget Efficiency Measures
11. Streamlining Administrative Services
12. Attorney Consolidation
13. Program and Segregated Revenue Transfers
14. Sum Sufficient Adjustments
15. Minor Adjustments Between Appropriations
16. Standard Budget Adjustments

ITEMS NOT APPROVED

17. Renumber TIF Appropriation

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

	ACTUAL FY04	ADJUSTED BASE FY05	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY06	FY07	FY06	FY07
GENERAL PURPOSE REVENUE	\$83,882.2	\$86,514.4	\$86,652.3	\$86,652.3	\$82,089.2	\$80,758.5
State Operations	83,882.2	86,514.4	86,652.3	86,652.3	82,089.2	80,758.5
PROGRAM REVENUE (2)	10,087.0	12,928.2	13,148.3	13,148.3	13,143.7	13,065.8
State Operations	10,087.0	12,928.2	13,148.3	13,148.3	13,143.7	13,065.8
SEGREGATED REVENUE (3)	69,690.6	67,313.7	71,010.7	71,996.8	67,104.0	67,914.9
State Operations	69,690.6	67,313.7	71,010.7	71,996.8	67,104.0	67,914.9
TOTALS-ANNUAL	163,659.8	166,756.3	170,811.3	171,797.4	162,336.9	161,739.2
State Operations	163,659.8	166,756.3	170,811.3	171,797.4	162,336.9	161,739.2

(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 FY05	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY06	FY07	FY06	FY07
GENERAL PURPOSE REVENUE	970.00	967.00	967.00	902.08	880.63
PROGRAM REVENUE (2)	90.10	90.10	90.10	97.90	96.60
SEGREGATED REVENUE (3)	135.75	135.75	135.75	124.90	64.85
TOTALS-ANNUAL	1,195.85	1,192.85	1,192.85	1,124.88	1,042.08

(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 FY04	ADJUSTED BASE FY05	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY06	FY07	FY06	FY07
1. Collection of taxes	\$54,740.3	\$56,534.5	\$55,647.0	\$55,647.0	\$52,979.4	\$52,808.7
2. State and local finance	9,726.7	10,529.5	10,545.4	10,545.4	10,224.2	9,876.8
3. Administrative services and space rental	31,688.8	34,791.1	36,033.0	36,033.0	34,346.7	33,456.2
8. Lottery	67,504.0	64,901.2	68,585.9	69,572.0	64,786.6	65,597.5
TOTALS	163,659.8	166,756.3	170,811.3	171,797.4	162,336.9	161,739.2

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

	ADJUSTED BASE FY05	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY06	FY07	FY06	FY07
1. Collection of taxes	756.35	747.45	747.45	715.23	712.23
2. State and local finance	136.80	137.40	137.40	132.90	126.90
3. Administrative services and space rental	193.20	198.50	198.50	178.10	164.35
8. Lottery	109.50	109.50	109.50	98.65	38.60
TOTALS	1,195.85	1,192.85	1,192.85	1,124.88	1,042.08

1. Single Sales Factor for Computer Software

The Governor recommends modifying the single sales factor apportionment for computer software, intellectual property and services.

2. Streamlined Sales Tax

The Governor recommends implementing the provisions of the Streamlined Sales and Use Tax Project, which is a cooperative effort among state governments to standardize and simplify sales and use tax provisions among state and local governments. The provisions of the project that standardize those items subject to the state sales tax are expected to reduce general fund tax revenues by \$3.1 million in FY06 and \$2.6 million in FY07. Implementation of the project is expected to increase voluntary compliance and result in remittance of additional sales tax. As a result of voluntary compliance due to adoption of the streamlined sales and use tax provisions, general fund tax revenues are expected to increase by \$15.1 million in FY06 and \$16.6 million in FY07.

In addition, action by Congress or successful litigation to require national compliance with these provisions could result in significant increases in state sales tax revenue. As such, the Governor recommends that any additional sales tax revenue associated with the streamlined sales tax provisions, as determined by the Department of Revenue, in excess of the amounts listed above be used to increase general school aid. See Department of Public Instruction, Item #15.

3. Collections Initiative

The Governor recommends improving the department's collection of tax debt by doing the following: (a) allow the department to post on the Internet the identity of taxpayers with delinquencies of more than \$25,000; (b) add law license to the list of professional credentials that may be denied or revoked for tax delinquency; (c) allow other state agencies to disclose information about individuals to the department; (d) require withholding of income taxes from nonresident members of pass-through entities; (e) eliminate the requirement that debt owed to a state agency must be established as a judgment before it can be offset against a taxpayer's refund; (f) allow the department to withhold lottery contracts from retailers who owe uninsured employer or worker's compensation assessments to the Department of Workforce Development; (g) authorize the department to collect lottery debts; and (h) allow any state disbursement, other than entitlement or student aid payments, to be intercepted to repay debt owed to any state agency or local government. The estimated fiscal impact of these changes is an increase in tax revenue of \$11,850,000 in FY06 and \$9,350,000 in FY07.

4. Protection of Sales Tax Base

The Governor recommends the following changes to the sales tax: (a) redefine the custom software exemption; (b) specify direct marketing of cigarette and tobacco sales are subject to the tax; (c) specify digitized versions of personal property delivered via the Internet are subject to the tax; and (d) clarify the definition of retail sale and minimize the effect on nonprofit organizations. The result of these provisions is an increase of tax revenue of \$1.3 million in FY06 and \$1.9 million in FY07 and an estimated avoidance of \$65 million in annual revenue loss to the general fund.

5. Expert Witness Fees

Source of Funds	Agency Request				Governor's Recommendation			
	FY06		FY07		FY06		FY07	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	46,500	0.00	46,500	0.00
TOTAL	0	0.00	0	0.00	46,500	0.00	46,500	0.00

The Governor recommends providing additional funding to improve the department's ability to provide expert witness testimony in contested hearings and cases. A reduction of the same amount is in the Department of Justice, Item #15.

6. Lottery Operations Streamlining Initiative

Source of Funds	Agency Request				Governor's Recommendation			
	FY06		FY07		FY06		FY07	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
SEG-O	0	0.00	0	0.00	0	0.00	0	-55.00
TOTAL	0	0.00	0	0.00	0	0.00	0	-55.00

The Governor recommends reducing position authority to reflect the contracting out of certain functions of the lottery beginning in FY07.

7. Direct Marketing of Tobacco Products

The Governor recommends requiring direct marketers of tobacco products to obtain a permit to sell these products in Wisconsin. As a result, all tobacco products sold via direct marketing would include excise as well as sales taxes. Consequently, direct marketers will be selling these products at the same price levels as in-state retailers. Additional tax revenue of \$1,105,000 will be generated in FY07. Permit fee revenue will also increase GPR-Earned by \$161,500 in FY07.

8. Liquor Distribution and Regulation

Source of Funds	Agency Request				Governor's Recommendation			
	FY06		FY07		FY06		FY07	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	-749,500	-8.00	-749,500	-8.00
PR-O	0	0.00	0	0.00	749,500	8.00	749,500	8.00
TOTAL	0	0.00	0	0.00	0	0.00	0	0.00

The Governor recommends statutory language changes that will strengthen the three-tier liquor distribution system. In addition, existing alcohol and tobacco agent positions are converted from GPR to PR, and will be supported by an increase of eight cents per gallon in the liquor administrative fee.

9. Internal Revenue Code Update

The Governor recommends updating Wisconsin Statutes to conform with changes made to the federal Internal Revenue Code, except in those cases where the fiscal impact is significant. The net impact of these changes is \$0.6 million in FY06 and \$1.1 million in FY07 in tax revenue.

10. Budget Efficiency Measures

Source of Funds	Agency Request				Governor's Recommendation			
	FY06		FY07		FY06		FY07	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	-3,986,300	-42.17	-5,251,600	-53.17
PR-O	0	0.00	0	0.00	-406,200	0.00	-484,100	-1.00
PR-S	0	0.00	0	0.00	-347,900	-0.20	-347,900	-0.20
SEG-O	0	0.00	0	0.00	-3,906,700	-9.85	-4,017,800	-10.85
TOTAL	0	0.00	0	0.00	-8,647,100	-52.22	-10,101,400	-65.22

The Governor recommends reducing expenditure and position authority in the department's state operations appropriations in the amounts shown to create additional operational efficiencies and balance the budget by: (a) consolidating sections to reduce the manager/supervisor to staff ratio; (b) utilizing technology in processing and compliance activities to deliver more efficient services; (c) rebidding and renegotiating existing contracts to reduce costs; (d) identifying opportunities to reduce and/or reallocate positions to more efficiently and effectively provide services; and (e) relocating tax record storage and reconfiguring space utilization for a reduction in overall agency space requirements and cost.

11. Streamlining Administrative Services

Source of Funds	Agency Request				Governor's Recommendation			
	FY06		FY07		FY06		FY07	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	0	0.00	-191,600	-10.45
PR-S	0	0.00	0	0.00	0	0.00	0	-0.30
SEG-O	0	0.00	0	0.00	0	0.00	-64,100	-4.05
TOTAL	0	0.00	0	0.00	0	0.00	-255,700	-14.80

The Governor recommends consolidating server and network support and certain procurement and purchasing functions in the Department of Administration and standardizing staffing levels related to human resources and payroll benefit services beginning in FY07 to create administrative efficiencies. To achieve this, the Governor recommends reducing the department's position authority by: (a) 6.3 FTE positions related to server and network consolidation; and (b) 5.5 FTE positions related to procurement and purchasing consolidation and retaining the funding associated with the positions in the department to cover chargebacks for these services from the Department of Administration. The Governor further recommends reducing the department's position authority and funding by: (a) 3.0 FTE positions and \$225,700 related to human resources and payroll benefit services. See Department of Administration, Item #1.

12. Attorney Consolidation

Source of Funds	Agency Request				Governor's Recommendation			
	FY06		FY07		FY06		FY07	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	126,200	-14.75	252,400	-14.75
SEG-O	0	0.00	0	0.00	0	-1.00	0	-1.00
TOTAL	0	0.00	0	0.00	126,200	-15.75	252,400	-15.75

The Governor recommends improving the provision of state legal services by consolidating attorneys and legal support staff under the secretary of the Department of Administration on January 1, 2006. The Department of Administration secretary will determine the assignment of attorneys to individual agencies. To achieve this, the Governor recommends transferring 16.75 FTE positions to the Department of Administration. The Governor further recommends retaining the funding associated with these positions in the department to purchase legal services from the Department of Administration. In addition, 1.0 FTE unclassified position is created to provide general counsel services. See Department of Administration, Item #3. Funding for tax litigation attorneys at the Department of Administration is transferred from the Department of Justice. See Department of Justice, Item #12.

13. Program and Segregated Revenue Transfers

The Governor recommends transferring balances to the general fund from the following appropriations: (a) \$164,000 PR in FY06 and \$169,000 PR in FY07 from s. 20.566(1)(g); (b) \$34,000 PR in FY06 and \$39,000 PR in FY07 from s. 20.566(1)(gb); (c) \$5,400 in each year from s. 20.566(1)(gd); (d) \$211,100 PR in FY06 and \$25,900 PR in FY07 from s. 20.566(1)(ge); (e) \$107,100 PR in FY06 from s. 20.566(1)(gf); (f) \$103,700 PR in FY06 and \$171,600 PR in FY07 from s. 20.566(1)(gg); (g) \$31,100 PR in each year from s. 20.566(1)(h); (h) \$59,600 PR in each year from s. 20.566(1)(ha); (i) \$5,600 PR in each year from s. 20.566(1)(hp); (j) \$222,200 PR in FY06 from s. 20.566(2)(h); and (k) \$145,100 PR in FY06 and \$100 PR in FY07 from s. 20.566(3)(gm).

14. Sum Sufficient Adjustments

Source of Funds	Agency Request				Governor's Recommendation			
	FY06		FY07		FY06		FY07	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
SEG-O	3,610,300	0.00	4,596,400	0.00	3,610,300	0.00	4,596,400	0.00
TOTAL	3,610,300	0.00	4,596,400	0.00	3,610,300	0.00	4,596,400	0.00

The Governor recommends increasing the sum sufficient appropriations under s. 20.566(8)(r) and (v) in FY06 and FY07 to reflect the impact of lottery sales projections on retailer compensation and vendor fees.

15. Minor Adjustments Between Appropriations

The Governor recommends making minor transfers between appropriations within the same funding sources in order to align department programs with the correct appropriations.

16. Standard Budget Adjustments

Source of Funds	Agency Request				Governor's Recommendation			
	FY06		FY07		FY06		FY07	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	137,900	-3.00	137,900	-3.00	137,900	-3.00	137,900	-3.00
PR-O	216,400	0.00	216,400	0.00	216,400	0.00	216,400	0.00
PR-S	3,700	0.00	3,700	0.00	3,700	0.00	3,700	0.00
SEG-O	86,700	0.00	86,700	0.00	86,700	0.00	86,700	0.00
TOTAL	444,700	-3.00	444,700	-3.00	444,700	-3.00	444,700	-3.00

The Governor recommends adjusting the department's base budget for: (a) turnover reduction (-\$1,516,000 in each year); (b) removal of noncontinuing elements from the base (-\$190,100 and -3.0 FTE positions in each year); (c) full funding of continuing position salaries and fringe benefits (\$1,724,900 in each year); (d) reclassifications and semiautomatic pay progression (\$41,500 in each year); (e) full funding of lease and directed moves costs (\$384,400 in each year); and (f) minor transfers within the same alpha appropriation.

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	FY06		FY07	
		Dollars	Positions	Dollars	Positions
17. Renumber TIF Appropriation	PR	0	0.00	0	0.00
TOTAL OF ITEMS NOT APPROVED	PR	0	0.00	0	0.00