

## DEPARTMENT OF REVENUE

### GOVERNOR'S BUDGET RECOMMENDATIONS

Source of Funds	FY09 Adjusted Base	FY10 Recommended	% Change Over FY09	FY11 Recommended	% Change Over FY10
GPR	93,460,500	90,876,200	-2.8	90,919,400	0.0
PR-O	11,325,000	12,210,300	7.8	12,594,100	3.1
PR-S	3,332,400	3,276,700	-1.7	3,276,700	0.0
SEG-O	73,926,900	71,429,800	-3.4	70,296,400	-1.6
<b>TOTAL</b>	<b>182,044,800</b>	<b>177,793,000</b>	<b>-2.3</b>	<b>177,086,600</b>	<b>-0.4</b>

### FULL-TIME EQUIVALENT POSITION SUMMARY

Source of Funds	FY09 Adjusted Base	FY10 Recommended	FTE Change From FY09	FY11 Recommended	FTE Change From FY10
GPR	896.38	863.73	-32.65	863.73	0.00
PR-O	101.45	105.35	3.90	105.35	0.00
PR-S	1.15	1.15	0.00	1.15	0.00
SEG-O	120.85	114.20	-6.65	114.20	0.00
<b>TOTAL</b>	<b>1,119.83</b>	<b>1,084.43</b>	<b>-35.40</b>	<b>1,084.43</b>	<b>0.00</b>

### 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 four major program areas:

- The Division of Income, Sales and Excise Tax collects taxes through accepting tax payments and processing tax returns, enforces tax laws and collects taxes through audit and compliance activities, provides taxpayer assistance, and conducts criminal investigations;
- 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 that provides funding for the property tax credit and farmland tax relief credit; and
- The administrative services area includes the Secretary's Office, Office of General Counsel, Division of Enterprise Services, Division of Technology Services, and Division of Research and Policy, and 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 primary strategic mission is to deliver the best tax services to the citizens of Wisconsin while maintaining the public's trust. The department must administer state and local taxes in an efficient manner, advocate for sound tax and fiscal policies, and provide property tax relief.

## PROGRAMS, GOALS, OBJECTIVES AND ACTIVITIES

The department has accomplished significant results in improving operational processes that created efficiencies throughout the tax system – in processing, property tax administration and the lottery. Over the past year, cross-functional reengineering teams addressed issues across the department, creating solutions to ensure accountability to taxpayers. The focus was on ensuring public trust in the financial system, customer service and innovation. While the goals listed with this biennial budget request are similar to those of the past, some of the measures have been modified slightly to better reflect objectives within a contemporary tax system.

The department has identified the following five core business principles that reflect the outcomes the department seeks to achieve: planning (forecasting), learning (well-trained staff), innovation (advanced technology and creativity), accountability (accuracy and reliability), and diversity (ensuring a multicultural, multigenerational workplace).

### Program 1: Collection of Taxes

Goal: Ensure accountability through enforcement of tax laws.

Objective/Activity: Delinquent collections per fiscal year.

Objective/Activity: Reduction in specifically identified areas of noncompliance.

Goal: Operate efficiently and effectively.

Objective/Activity: Growth in individual income, corporate franchise/income, and sales/use tax returns received electronically.

### Program 2: State and Local Finance

Goal: Ensure fair and equitable tax compliance, collection and property valuation through the Integrated Property Assessment System (IPAS).

Objective/Activity: Increase availability of electronic means of doing business.

### Program 3: Administrative Services and Space Rental

Goal: Develop and advocate sound tax and fiscal policy.

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 and effectively.

Objective/Activity: Cost per dollar received.

### Program 8: Lottery

Goal: To achieve the highest possible revenue for property tax relief by offering entertaining and socially responsible games, while ensuring integrity and public trust.

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

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

## PERFORMANCE MEASURES

### 2007 AND 2008 GOALS AND ACTUALS

Prog. No.	Performance Measure	Goal 2007	Actual 2007	Goal 2008	Actual 2008
1.	Collection of delinquent taxes.	\$144 million	\$137 million	\$144 million	\$140 million
1.	Percentage of first-time homestead credit (HC) and earned income credit (EIC) filers.	9% (HC) 6% (EIC)	9% (HC) 6% (EIC)	9% (HC) 6% (EIC)	9% (HC) 6% (EIC)
1.	Percentage of individual income (II) and sales tax (ST) returns received electronically.	65% (II) 55% (ST)	63% (II) 48% (ST)	65% (II) <sup>1</sup> 58% (ST)	66% (II) 49% (ST)
2.	Percentage of planned manufacturing assessments completed to meet five-year cycle requirement.	90%	97%	95%	49%
3.	Percentage of tax and fiscal policy initiatives consistent with department recommendations.	90%	Biennial Measure	90%	95%
3.	Variance between estimated revenue and actual revenue.	± 2%	1%	± 2%	-0.5%
3.	Percentage of employees satisfied with their work environment.	More than 2006	N/A	More than 2007	71%
3.	Percentage of target group members in underutilized job classifications.	9%	9.5%	9.5%	9.7%
3.	Cost per dollar received.	\$.0075	\$.0073	\$.0070	\$.0075

Prog. No.	Performance Measure	Goal 2007	Actual 2007	Goal 2008	Actual 2008
8.	Percentage increase in non-Powerball sales generated over prior year.	2%	2.24%	2%	-0.88%
8.	Percentage of lottery costs as compared to lottery revenues.	<10%	5.97%	<10%	6.79%

Note: Based on fiscal year.

<sup>1</sup>The 2008 goal was incorrectly entered as 85% in the 2007-09 budget and should have been 65%.

### 2009, 2010 AND 2011 GOALS

Prog. No.	Performance Measure	Goal 2009	Goal 2010	Goal 2011
1.	Collection of delinquent taxes.	\$147 million	\$152 million	\$155 million
1.	Percentage of individual income (II) sales tax (ST) and Corporate (C) returns received electronically. <sup>1</sup>	70% (II) 60% (ST) 35% (C)	74%(II) 58% (ST) 40% (C)	78% (II) 63% (ST) 45% (C)
2.	Percentage of forms and reports received electronically. <sup>1</sup>	75%	80%	90%
3.	Variance between estimated revenue and actual revenue.	± 2%	± 2%	± 2%
3.	Percentage of employees satisfied with their work environment.	More than 2008	More than 2009	More than 2010
3.	Percentage of target group members in underutilized job classifications.	10%	10%	10%
3.	Cost per dollar received. <sup>1</sup>	\$.0070	\$.0070	\$.0070
8.	Percentage increase in non-Powerball sales generated over prior year. <sup>1</sup>	1%	1%	1%
8.	Percentage of lottery costs as compared to lottery revenues.	<10%	<10%	<10%

Note: Based on fiscal year.

<sup>1</sup>The department analyzed its performance measures during FY06 to better align with current priorities. The measures have been updated to better align with business principles.

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

1. Government Efficiency Measures
2. Across-the-Board 1 Percent Reductions
3. Additional GPR Reductions
4. Cigarette and Tobacco Tax Increase
5. Very High Earner Tax Bracket
6. Capital Gains Exclusion
7. Qualified Production Activities Deduction
8. Pass-Through Entity Withholding
9. Throwback Sales
10. Affiliated Entities Sales Tax Treatment
11. Air Carrier Definition
12. Economic Nexus Standard for Internet Businesses
13. Internal Revenue Code Update
14. Payments for Municipal Services
15. Debt Collection Initiative
16. Additional Collection Authority
17. Homestead Tax Credit Indexing
18. Farmland Preservation Tax Credit
19. Research and Development Tax Credit
20. Biotechnology Sales and Use Tax Exemption
21. Historic Rehabilitation Tax Credit
22. Assessment Compliance
23. Tax Incremental District Fee
24. County Level Property Assessment
25. Regional Transit Authority Tax Administration
26. Electronic Filing Requirements
27. Technical Corrections to Income Tax Credits
28. Consolidated Tax Statement Requirement
29. Penalties for Noncompliance
30. Towing and Hauling of Motor Vehicles
31. Direct Use for Manufacturing Sales and Use Tax Exemption
32. Youth Sports League and Entry Fees Exemption
33. Interest Waiver for Disasters
34. Standard of Review for Tax Appeals Commission
35. Direct Marketing of Cigarettes and Tobacco Products
36. Tribal Tax Refund and Sharing Agreement Expansion
37. Attorney Reorganization
38. Streamlined Sales Tax Agreement Fees
39. Information Technology System Improvements
40. Lottery Sum Sufficient Appropriations
41. Program Revenue Administrative Funding
42. Minor Transfers Between Appropriations
43. Standard Budget Adjustments

**ITEMS NOT APPROVED**

44. Lottery Bad Debt Expense
45. Agency Setoff System Funding
46. Limit Definition of Manufacturing
47. Compulsive Gambling Appropriation Modification

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

	ACTUAL FY08	ADJUSTED BASE FY09	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY10	FY11	FY10	FY11
GENERAL PURPOSE REVENUE	\$85,128.6	\$93,460.5	\$96,437.7	\$96,437.7	\$90,876.2	\$90,919.4
State Operations	85,128.6	93,460.5	96,437.7	96,437.7	90,876.2	90,919.4
PROGRAM REVENUE (2)	10,723.8	14,657.4	15,431.5	15,440.6	15,487.0	15,870.8
State Operations	10,723.8	14,657.4	15,431.5	15,440.6	15,487.0	15,870.8
SEGREGATED REVENUE (3)	69,299.8	73,926.9	74,474.6	73,734.5	71,429.8	70,296.4
State Operations	69,299.8	73,926.9	74,474.6	73,734.5	71,429.8	70,296.4
TOTALS-ANNUAL	165,152.2	182,044.8	186,343.8	185,612.8	177,793.0	177,086.6
State Operations	165,152.2	182,044.8	186,343.8	185,612.8	177,793.0	177,086.6

(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 FY09	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY10	FY11	FY10	FY11
GENERAL PURPOSE REVENUE	896.38	894.38	894.38	863.73	863.73
PROGRAM REVENUE (2)	102.60	103.60	103.60	106.50	106.50
SEGREGATED REVENUE (3)	120.85	120.85	120.85	114.20	114.20
TOTALS-ANNUAL	1,119.83	1,118.83	1,118.83	1,084.43	1,084.43

(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 FY08	ADJUSTED BASE FY09	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY10	FY11	FY10	FY11
1. Collection of taxes	\$56,570.8	\$60,607.4	\$63,443.4	\$63,480.0	\$60,848.0	\$61,081.8
2. State and local finance	9,800.3	14,344.9	14,568.6	14,568.6	13,718.8	13,718.8
3. Administrative services and space rental	31,564.1	35,686.8	36,611.2	36,611.2	34,592.7	34,635.9
8. Lottery	67,217.0	71,405.7	71,720.6	70,953.0	68,633.5	67,650.1
<b>TOTALS</b>	<b>165,152.2</b>	<b>182,044.8</b>	<b>186,343.8</b>	<b>185,612.8</b>	<b>177,793.0</b>	<b>177,086.6</b>

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

	ADJUSTED BASE FY09	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY10	FY11	FY10	FY11
1. Collection of taxes	721.23	715.48	715.48	700.83	700.83
2. State and local finance	127.90	126.90	126.90	121.50	121.50
3. Administrative services and space rental	176.10	181.85	181.85	173.15	173.15
8. Lottery	94.60	94.60	94.60	88.95	88.95
<b>TOTALS</b>	<b>1,119.83</b>	<b>1,118.83</b>	<b>1,118.83</b>	<b>1,084.43</b>	<b>1,084.43</b>

(4) All positions are State Operations unless otherwise specified

**1. Government Efficiency Measures**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	-2,181,200	-29.65	-2,181,200	-29.65
PR-O	0	0.00	0	0.00	-6,500	-0.10	-6,500	-0.10
SEG-O	0	0.00	0	0.00	-407,000	-6.65	-407,000	-6.65
TOTAL	0	0.00	0	0.00	-2,594,700	-36.40	-2,594,700	-36.40

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) eliminating position vacancies across funding sources; and (b) reducing permanent property, supplies and services funding.

**2. Across-the-Board 1 Percent Reductions**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	-934,700	0.00	-934,700	0.00
PR-O	0	0.00	0	0.00	-111,800	0.00	-113,800	0.00
PR-S	0	0.00	0	0.00	-32,800	0.00	-32,800	0.00
SEG-O	0	0.00	0	0.00	-248,700	0.00	-248,700	0.00
TOTAL	0	0.00	0	0.00	-1,328,000	0.00	-1,330,000	0.00

The Governor recommends reducing most nonfederal appropriations by 1 percent to create additional efficiencies and balance the budget.

**3. Additional GPR Reductions**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	-2,491,700	0.00	-2,491,700	0.00
TOTAL	0	0.00	0	0.00	-2,491,700	0.00	-2,491,700	0.00

The Governor recommends reducing funding by the amounts shown to balance the budget. The Governor also recommends providing the secretary of the Department of Administration the authority to allocate funds that may be received from federal economic recovery legislation that are intended to stabilize state budgets, as prescribed in that legislation, to offset reductions to agencies.



#### **4. Cigarette and Tobacco Tax Increase**

The Governor recommends increasing the tax on cigarettes by \$0.75 per pack and recommends providing an equivalent increase to the tax on other tobacco products to discourage smoking and balance the budget. The fiscal impact of the cigarette tax increase is an estimated increase in tax revenue of \$127.4 million in FY10 and \$130.3 million in FY11. The fiscal impact of the tobacco products tax increase is an estimated increase in tax revenue of \$15.2 million in FY10 and \$18 million in FY11. The Governor also recommends increasing the refund paid to tribes for collection of the cigarette and tobacco products tax. See Shared Revenue and Tax Relief, Item #18.

#### **5. Very High Earner Tax Bracket**

The Governor recommends creating a fifth individual income tax bracket with a taxation rate of 7.75 percent. For single individuals, certain fiduciaries and heads of households, this bracket applies to taxable income exceeding \$225,000. For married persons, this bracket applies to taxable income exceeding \$300,000 for joint filers and \$150,000 for separate filers. The fiscal impact is an estimated increase in tax revenue of \$175.6 million in FY10 and \$136.2 million in FY11.

#### **6. Capital Gains Exclusion**

The Governor recommends reducing from 60 percent to 40 percent the amount of capital gains that may be excluded from taxable income. Even with this change, Wisconsin's capital gains exclusion will be one of the most generous in the country. The fiscal impact is an estimated increase in tax revenue of \$85.1 million in FY10 and \$95.5 million in FY11.

#### **7. Qualified Production Activities Deduction**

The Governor recommends decoupling from the federal Internal Revenue Code provision, as created by the federal American Jobs Creation Act of 2004, which provides an income and franchise tax deduction for qualified production activities. This deduction is made available to taxpayers for domestic production activity nationally and provides no specific incentive for business investment in Wisconsin. The fiscal impact is an estimated increase in tax revenue of \$38.2 million in FY10 and \$33.5 million in FY11.

#### **8. Pass-Through Entity Withholding**

The Governor recommends requiring pass-through entities to make quarterly, rather than annual, estimated payments of withholding tax for nonresident members to be consistent with the current treatment of resident members. The fiscal impact is an estimated increase in tax revenue of \$38.5 million in FY10.

#### **9. Throwback Sales**

The Governor recommends requiring the income from throwback sales to be treated equal to the income from normal sales for corporate income tax computation purposes. Throwback sales are sales shipped out of Wisconsin to states without income tax jurisdiction over the company or sales shipped out of state to the federal government. The fiscal impact is an estimated increase in tax revenue of \$57.7 million in FY10 and \$37.5 million in FY11.

**10. Affiliated Entities Sales Tax Treatment**

The Governor recommends specifying that if an affiliated entity is treated as part of the parent company for the purpose of income tax liability, it will receive the same treatment for the purpose of sales tax liability. The Governor also recommends specifying that these entities may elect either to combine subsidiary sales tax returns with owner returns or file a separate return for that affiliated entity. The fiscal impact is an estimated increase in tax revenue of \$19.8 million in FY10 and \$21 million in FY11.

**11. Air Carrier Definition**

The Governor recommends providing a definition of an air carrier to clarify that only direct air carriers qualify for the special apportionment for income tax purposes. The fiscal impact is an estimated increase in tax revenue of \$4 million in each year.

**12. Economic Nexus Standard for Internet Businesses**

The Governor recommends amending the statutory definition of a retailer engaged in business in this state to clearly include an Internet retailer that has an affiliate physically located in Wisconsin that makes similar sales. The fiscal impact is an estimated increase in tax revenue of \$1.5 million in each year.

**13. Internal Revenue Code Update**

The Governor recommends updating Wisconsin Statutes to conform with changes made to the federal Internal Revenue Code. The net impact of these changes is a reduction in tax revenue of \$40.6 million in FY10 and \$5.5 million in FY11.

**14. Payments for Municipal Services**

The Governor recommends transferring administration of the payments for municipal services program from the Department of Administration to the department to create efficiencies by consolidating administration of property tax relief payments to municipalities in the department's Division of State and Local Finance. See Department of Administration, Item #10 and Shared Revenue and Tax Relief, Item #4.

**15. Debt Collection Initiative**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions	
PR-O	0	0.00	0	0.00	164,900	0.00	365,600	0.00
TOTAL	0	0.00	0	0.00	164,900	0.00	365,600	0.00

The Governor recommends authorizing the department to collect nontax debt for all state agencies. The Governor also recommends that all state agencies be required to enter into written agreements with the department by July 1, 2010, and that any debts 90 days or older be referred to the department for collection, with a 30-day notice to the debtor. The Governor further recommends not requiring the referral of debts that are still under negotiation, subject of legal proceedings or subject to an active payment plan, and authorizing the secretary to waive the referral of certain types of debt. In addition, the Governor recommends allowing the department to handle the initial contact and hearings for other agencies.

**16. Additional Collection Authority**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
PR-O	0	0.00	0	0.00	211,000	3.00	407,000	3.00
TOTAL	0	0.00	0	0.00	211,000	3.00	407,000	3.00

The Governor recommends providing additional authorities to increase the effectiveness of the collection of delinquent taxes and other debts owed to the state as follows: (a) require financial institutions to electronically match account holders with the delinquent taxpayer database on a quarterly basis; (b) enter into reciprocal agreements with the federal Internal Revenue Service under which the state will collect federal nontax debts from state payments to debtors, other than tax refunds, and the U.S. Treasury will collect state tax and nontax debts from federal nontax payments to debtors; and (c) post on the Internet a list of businesses that have had their seller's permits revoked due to unpaid taxes. Once fully implemented, these actions are estimated to increase collections by \$13.7 million annually.

**17. Homestead Tax Credit Indexing**

The Governor recommends indexing the maximum amount of household income eligible for claiming the homestead tax credit to inflation, beginning with claims filed in 2011, to maintain its value. The fiscal impact is an estimated decrease in tax revenues of \$1.1 million in FY12.

**18. Farmland Preservation Tax Credit**

The Governor recommends restructuring the farmland preservation tax credit to a per-acre credit and repealing the farmland tax relief credit and redirecting the funding to the new per-acre credit. The Governor also recommends requiring the department to administer the processing and payment of credit claims. See the Department of Agriculture, Trade and Consumer Protection, Item #4 and Shared Revenue and Tax Relief, Item #8.

**19. Research and Development Tax Credit**

The Governor recommends providing an income and franchise tax credit equal to the amount of qualified research expenses for businesses that increase spending on research and development by more than 125 percent of their previous three-year research and development spending average, effective January 1, 2011. The fiscal impact is an estimated decrease in tax revenue of \$5 million in FY11.

**20. Biotechnology Sales and Use Tax Exemption**

The Governor recommends providing biotechnology companies an exemption to the sales and use tax for machinery and other tangible personal property used for qualified manufacturing or biotechnology research in the state, effective January 1, 2012. The fiscal impact is an estimated decrease in tax revenue of \$5 million beginning in FY12.

### **21. Historic Rehabilitation Tax Credit**

The Governor recommends allowing taxpayers to claim the historic preservation tax credit for costs related to rehabilitating an income-producing historic building if evidence is provided that the rehabilitation work was recommended by the state historic preservation officer for approval by the Secretary of the Interior before construction began and that the Secretary of the Interior approved the rehabilitation. The Governor also recommends allowing partners in a partnership or members of a limited liability company to apportion the tax credit according to a specified agreement of the partners.

### **22. Assessment Compliance**

The Governor recommends requiring municipalities to assess the value of major classes of property to within 10 percent of equalized value every five years and defining a major class of property as one that is 10 percent of the full value of the taxation district. If a municipality fails to perform this valuation, the Governor also recommends requiring the department to order a revaluation in the next year. The Governor further recommends eliminating the requirement that local assessors attend training after a failure to perform a valuation within five years.

### **23. Tax Incremental District Fee**

The Governor recommends creating an annual maintenance fee of \$150 for each active tax incremental district to fund a portion of the department's administrative activities related to these districts.

### **24. County Level Property Assessment**

The Governor recommends requiring the department to work with counties to determine the efficacy of assessing property at a county or regional level, rather than the current municipal level.

### **25. Regional Transit Authority Tax Administration**

The Governor recommends authorizing the creation of three regional transit authorities, which will have the authority to enact regional transit authority taxes to fund transit costs. The Governor also recommends requiring the department to administer collection and distribution of the tax revenues. See Department of Transportation, Item #5 and Shared Revenue and Tax Relief, Item #17.

### **26. Electronic Filing Requirements**

The Governor recommends authorizing the department to mandate electronic filing of rental vehicle fee and dry cleaning facility fee returns. The Governor also recommends reducing the threshold at which electronic filing is required for wage statements and information returns to 50 or more of any one return type, and providing a \$10 penalty per return for noncompliance. The Governor further recommends providing a \$50 per return penalty for tax preparers who do not comply with the existing mandate to electronically file their clients' individual income tax returns.

### **27. Technical Corrections to Income Tax Credits**

The Governor recommends making the following technical corrections to various income tax credits to provide consistency and align with legislative intent: (a) allow taxpayers to claim the electronic medical records and ethanol and biodiesel fuel pump credits against the alternative minimum tax; (b) provide that the treatment of the ethanol and biodiesel fuel pump credit is the same for corporations and insurance companies; (c) require that insurance companies include technology zone tax credits in income computation for income and franchise tax purposes, similar to other entities; and (d) specify consistently in statutes that beginning after December 31, 2007, investments for which angel or early stage seed tax credits are claimed must be held for three years.

### **28. Consolidated Tax Statement Requirement**

The Governor recommends authorizing the department to require a business to file its federal consolidated tax statement upon request. The consolidated statement will better allow the department to determine taxable income received by affiliated or related corporations.

### **29. Penalties for Noncompliance**

The Governor recommends standardizing and increasing to \$50 the fee for late filing of income and franchise tax returns, partnership returns, and withholding reports. The Governor also recommends requiring certain entities to specify income, deductions, credits and other items related to tax liability to shareholders, partners and beneficiaries. Failure to provide such information will be subject to a \$50 penalty for each violation. The Governor further recommends imposing penalties for delay or refusal to produce records to support tax return information requested by an auditor. The penalty may include either the disallowance of deductions, credits or exemptions to which the requested records relate, or a penalty for each violation equal to the greater of \$500 or 25 percent of the amount of any adjustment made by the department.

### **30. Towing and Hauling of Motor Vehicles**

The Governor recommends clarifying that the act of flatbed motor vehicle hauling, if provided for the same purpose as conventional vehicle towing, is subject to the sales and use tax.

### **31. Direct Use for Manufacturing Sales and Use Tax Exemption**

The Governor recommends specifying that tangible personal property, which becomes an ingredient or component part of a manufactured product, is eligible for exemption from the sales and use tax only if it is used exclusively and directly by a manufacturer in manufacturing the product.

### **32. Youth Sports League and Entry Fees Exemption**

The Governor recommends providing an exemption from the sales and use tax for league entry and registration fees charged by a nonprofit organization for participation in youth sports activities. The estimated fiscal impact of this exemption is minimal.

### **33. Interest Waiver for Disasters**

The Governor recommends providing that interest on unpaid income and franchise tax does not apply during an extension period for persons allowed a federal extension due to natural disaster. The Governor also recommends providing that the amount of the federal itemized deduction for casualty loss that is directly related to a presidentially-declared disaster also be used in the computation of the Wisconsin itemized deduction credit. The fiscal impact is an estimated decrease in tax revenue of \$240,000 in each year.

**34. Standard of Review for Tax Appeals Commission**

The Governor recommends specifying that the Tax Appeals Commission give controlling weight deference to the department's interpretation of department rules unless the interpretation is plainly erroneous or inconsistent with the language of the rules or the statutes that govern the rules.

**35. Direct Marketing of Cigarettes and 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.

**36. Tribal Tax Refund and Sharing Agreement Expansion**

The Governor recommends authorizing the department to enter into agreements with Native American tribes or bands located in Wisconsin to collect, remit and provide refunds of income, withholding, sales and use, motor vehicle fuel, and beverage taxes related to activities occurring on tribal lands or undertaken by tribal members off of tribal lands.

**37. Attorney Reorganization**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	0	-1.00	0	-1.00
TOTAL	0	0.00	0	0.00	0	-1.00	0	-1.00

The Governor recommends improving the provision of state legal services by reorganizing certain vacant attorneys and legal support staff under the secretary of the Department of Administration on July 1, 2009. The Department of Administration secretary will determine the assignment of attorneys to perform enterprise legal services. To achieve this, the Governor recommends transferring 1.0 FTE vacant position to the Department of Administration. The Governor further recommends retaining the funding associated with this position in the department to purchase legal services from the Department of Administration. See Department of Administration, Item #4.

**38. Streamlined Sales Tax Agreement Fees**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
PR-O	40,000	0.00	40,000	0.00	40,000	0.00	40,000	0.00
TOTAL	40,000	0.00	40,000	0.00	40,000	0.00	40,000	0.00

The Governor recommends providing funding for fees paid annually to the Streamlined Sales Tax Governing Board, upon adoption of the Mainstreet Equity Act legislation.

**39. Information Technology System Improvements**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	0	0.00	0	0.00	45,500	0.00	88,700	0.00
PR-O	166,100	0.00	187,200	0.00	78,300	0.00	81,000	0.00
SEG-O	70,100	0.00	97,600	0.00	178,600	0.00	28,600	0.00
TOTAL	236,200	0.00	284,800	0.00	302,400	0.00	198,300	0.00

The Governor recommends providing funding to continue development and upgrade of the WINPAS system to improve administration of current and proposed taxes. The Governor also recommends providing \$14,600 PR in each year to cover costs of information technology equipment replacement and service charges.

**40. Lottery Sum Sufficient Appropriations**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
SEG-O	-179,900	0.00	-947,500	0.00	-2,337,600	0.00	-3,321,000	0.00
TOTAL	-179,900	0.00	-947,500	0.00	-2,337,600	0.00	-3,321,000	0.00

The Governor recommends decreasing the sum sufficient appropriations under s. 20.566(8)(r) and (v) to reflect the impact of Lottery sales projections. The Governor also recommends paying ticket printing and delivery costs from the sum sufficient appropriation under s. 20.566(8)(v).

**41. Program Revenue Administrative Funding**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	-52,500	-1.00	-52,500	-1.00	-52,500	-1.00	-52,500	-1.00
PR-O	137,100	1.00	115,900	1.00	137,100	1.00	115,900	1.00
TOTAL	84,600	0.00	63,400	0.00	84,600	0.00	63,400	0.00

The Governor recommends increasing expenditure authority for administrative support costs related to the program growth of the three-tier regulation system for alcohol beverage production and debt collection programs.

**42. Minor Transfers Between Appropriations**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	-35,900	0.00	-35,900	0.00	-35,900	0.00	-35,900	0.00
PR-O	53,700	0.00	53,700	0.00	53,700	0.00	53,700	0.00
PR-S	-19,900	0.00	-19,900	0.00	-19,900	0.00	-19,900	0.00
SEG-O	2,100	0.00	2,100	0.00	2,100	0.00	2,100	0.00
<b>TOTAL</b>	<b>0</b>	<b>0.00</b>	<b>0</b>	<b>0.00</b>	<b>0</b>	<b>0.00</b>	<b>0</b>	<b>0.00</b>

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

**43. Standard Budget Adjustments**

Source of Funds	Agency Request				Governor's Recommendation			
	FY10		FY11		FY10		FY11	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
GPR	3,065,600	-1.00	3,065,600	-1.00	3,066,200	-1.00	3,066,200	-1.00
PR-O	323,700	0.00	332,900	0.00	318,600	0.00	326,200	0.00
PR-S	-3,000	0.00	-3,000	0.00	-3,000	0.00	-3,000	0.00
SEG-O	315,400	0.00	315,400	0.00	315,500	0.00	315,500	0.00
<b>TOTAL</b>	<b>3,701,700</b>	<b>-1.00</b>	<b>3,710,900</b>	<b>-1.00</b>	<b>3,697,300</b>	<b>-1.00</b>	<b>3,704,900</b>	<b>-1.00</b>

The Governor recommends adjusting the department's base budget for: (a) turnover reduction (-\$1,571,300 in each year); (b) removal of noncontinuing elements from the base (-\$334,100 and -1.0 FTE position in each year); (c) full funding of continuing position salaries and fringe benefits (\$4,933,200 in each year); (d) reclassifications and semiautomatic pay progression (\$24,000 in FY10 and \$31,600 in FY11); (e) full funding of lease and directed moves costs (\$645,500 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	FY10		FY11	
		Dollars	Positions	Dollars	Positions
44. Lottery Bad Debt Expense	SEG-O	340,000	0.00	340,000	0.00
45. Agency Setoff System Funding	PR-O	76,400	0.00	76,400	0.00
46. Limit Definition of Manufacturing	GPR	0	0.00	0	0.00
47. Compulsive Gambling Appropriation Modification	SEG-O	0	0.00	0	0.00
<b>TOTAL OF ITEMS NOT APPROVED</b>	PR-O	<b>76,400</b>	<b>0.00</b>	<b>76,400</b>	<b>0.00</b>
	SEG-O	<b>340,000</b>	<b>0.00</b>	<b>340,000</b>	<b>0.00</b>