Minnesota Tax Policy Impairs Income Tax Reciprocity Agreement

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Restoring Wisconsin's income tax reciprocity agreement with Minnesota has been a top priority for the Wisconsin Department of Revenue. Here's an update on the status of those efforts. The bottom line is that Wisconsin has offered a very reasonable proposal to Minnesota, but we have so far been unable to reach agreement due to a demand for an additional payment that hadn't been mentioned by Minnesota when it cancelled the agreement in 2009. Wisconsin legislators and the Wisconsin Department of Revenue are continuing to work together to urge Minnesota to reach a reasonable compromise, so we can make taxpaying easier for residents in both states.

In 2009, Minnesota ended its 40-year income tax reciprocity agreement with Wisconsin. Minnesota Governor Tim Pawlenty had said he would end the deal unless Wisconsin accelerated its compensation payments to Minnesota.

Over 57,000 Wisconsin residents work in Minnesota and over 22,000 Minnesota residents work in Wisconsin. The agreement saved taxpayers in both states the burden of filing two state tax returns by allowing them to file one return in their home state.

When Wisconsin Governor Scott Walker took office in January 2011, he made it a priority to work with Minnesota to restore the agreement. Minnesota Governor Mark Dayton also offered his support. Governor Walker took the first step by paying an old debt to Minnesota leftover from the prior agreement. This past February, I led a team from the Wisconsin Department of Revenue which joined Wisconsin and Minnesota border legislators and the Minnesota Department of Revenue at a summit conference in St. Paul aimed at restoring income tax reciprocity.

In March and April, Wisconsin made offers to Minnesota that would have provided accelerated, quarterly payments to Minnesota and used the results of a new joint benchmark study to calculate the size of the payment. By agreeing to Minnesota's terms on these two issues raised in 2009, Wisconsin hoped we could restore an agreement that benefits taxpayers in both states.

However, the Minnesota Department of Revenue raised a new issue. With reciprocity eliminated, Minnesota experienced a tax revenue windfall funded by its residents due to how border crossers are taxed in Minnesota.

That windfall results from a little known provision in Minnesota's tax code. In Wisconsin, we provide our residents a full credit for taxes paid to another state to avoid double taxation. However, Minnesota limits its tax credit for taxes paid to another state. This means that when Minnesota ended income tax reciprocity, its treasury received more tax revenue from its own residents who work in Wisconsin.

Regrettably, Minnesota has insisted that to restore the agreement, Wisconsin taxpayers must reimburse Minnesota an amount above and beyond the difference between taxes foregone by the two states. Under their only offer, Wisconsin would be required to pay Minnesota for the cost of reversing the tax increase Minnesota imposed on its residents when the old agreement was cancelled.

Making such a payment, estimated to be as much as $15 million by Minnesota, is not possible under current law. Furthermore, it is unreasonable to ask Wisconsin taxpayers to pay to reverse a tax increase Minnesota imposed on its own residents.

In a conference call last week with Minnesota border legislators, Wisconsin urged Minnesota to either stop seeking this new reimbursement or to remove the issue altogether by providing its residents a full tax credit for taxes paid to other states as Wisconsin does.

A Minnesota legislative solution that protects its taxpayers from higher taxes and unfair application of credits would remove the "treasury-centric" approach Minnesota's Administration has used to block a deal.

It's important to note that Minnesota has reciprocity agreements with Michigan and North Dakota but does not require a reimbursement for its tax credit limitation. We believe Eastern Minnesota border legislators should demand the same treatment for their taxpayers.

Wisconsin border legislators from La Crosse, to Hudson, to Superior, have been especially strong advocates in our efforts to restore income tax reciprocity. Senators Jauch and Harsdorf have led the fight. We stand ready to restore an agreement if Minnesota decides it wants to take a "taxpayer-centric" approach. With Minnesota legislative action to provide basic fairness for its taxpayers, we are confident we can restore an agreement to promote taxpayer convenience in both states.

The Wisconsin Department of Revenue helps formulate state tax policy, administers the state's major tax laws, collects individual and business taxes, and provides state financial aid to local governments.