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Let's Restore Income Tax Reciprocity

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For the past two years, Wisconsin has sought to engage Minnesota in restoring income tax reciprocity after Minnesota terminated the longstanding prior agreement in 2009. Wisconsin has offered a detailed proposal that completely addresses the two issues Minnesota raised when it canceled the prior agreement.

Unfortunately, Minnesota's Department of Revenue is now making an unreasonable demand for additional compensation that is blocking a new agreement. We hope that Minnesota's Legislature will take a more reasonable approach and act to restore reciprocity, which would benefit thousands of taxpayers in both states.

When Minnesota ended the prior agreement, it explicitly stated that it wanted accelerated payments from Wisconsin to improve Minnesota's cash flow, and it wanted an updated benchmark study to determine the amount of taxes border crossers owed to the two states. Wisconsin has agreed to Minnesota's terms on both of these issues, and the new study was completed on March 1.

Reciprocity payments were traditionally made by Wisconsin to Minnesota to account for the difference in revenue foregone by each state when border crossers file tax returns only in their home state and not in the state where they work. The updated study showed that the net amount foregone by Minnesota in 2011 would have been \$69 million, reflecting a total of \$105 million foregone by Minnesota, offset by \$36 million foregone by Wisconsin. Wisconsin is prepared and eager to restore reciprocity and make payments using this customary foregone revenue calculation to determine the payment amount.

However, the Minnesota Department of Revenue's new demand would require Wisconsin to make an additional \$6 million payment to Minnesota's treasury. This is the amount of the tax increase Minnesota imposed on its residents who work in Wisconsin when the prior agreement ended. It's now being collected because Minnesota limits the credit for taxes paid to other states which its own residents can take - something Wisconsin does not do.

Such a payment is unheard of in income tax reciprocity agreements throughout the nation. In fact, Minnesota does not require such a payment from Michigan or North Dakota, where it currently has income tax reciprocity agreements.

If Minnesota drops this new condition, we can restore income tax reciprocity. It's that simple.

A recent column from Minnesota Revenue Commissioner Myron Frans made it clear that Minnesota's Department of Revenue is still taking a "treasury-centric" approach by insisting that Minnesota's treasury must retain the \$6 million windfall it received from its own taxpayers when it ended reciprocity. Wisconsin advocates for a "taxpayer-centric" approach which would reverse the tax increase on Minnesota taxpayers by allowing for a full credit for taxes paid to other states.

We hope the Minnesota legislature will champion a taxpayer-centric approach and eliminate the only remaining issue blocking an agreement so we can make taxpaying easier for border crossers in both states.