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Put Taxpayers First by Restoring Income Tax Reciprocity

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Wisconsin Department of Revenue

For many decades, Minnesota and Wisconsin had an income tax reciprocity agreement which provided that residents who lived in one state and worked in the other only had to file an income tax return in their state of residence, rather than in both states. This made taxpaying much easier for the 80,000 people in both states who work across the border.

Regrettably, Minnesota ended the tax reciprocity agreement with Wisconsin in 2009. Wisconsin would like to put a new agreement in place for tax year 2015, and we just sent Minnesota a fair and comprehensive proposal to do that.

Many states have reciprocity agreements to make taxpaying more convenient. For example, Minnesota has agreements with North Dakota and Michigan, and Wisconsin has agreements with Illinois, Indiana, and Michigan. Under the prior Minnesota-Wisconsin agreement, annual reciprocity payments were made by Wisconsin to Minnesota to account for the difference in revenue foregone by each state when border crossers filed tax returns only in their home state.

When Minnesota ended the prior agreement, it cited two concerns. It wanted accelerated payments from Wisconsin to improve Minnesota's cash flow, and it wanted an updated benchmark study of the amount of taxes border crossers owed to the two states.

Wisconsin has just sent Minnesota a detailed proposal that addresses the two issues Minnesota raised in 2009. It provides that payments from Wisconsin to Minnesota would rise from the $58 million that was paid for tax year 2009 to $87 million for tax year 2015; that payments would be made quarterly throughout each tax year, rather than after the tax year ended; and that future payments would be based on a benchmark study jointly completed by both states in 2013.

This is a very fair offer that puts taxpayers first. We've been urged to compromise to reach an agreement. In fact, we've gone beyond offering a compromise; we've fully adopted Minnesota's positions on the issues raised in 2009.

Unfortunately, Minnesota's Department of Revenue has made one new demand which would require Wisconsin to make an additional payment of up to $6 million to Minnesota's treasury. This is the amount of the tax increase Minnesota imposed on its own 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, and Minnesota does not require this payment under its agreements with North Dakota and Michigan.

Wisconsin has readily agreed to Minnesota's 2009 requests. We hope Minnesota will put taxpayers first and not block a new agreement with an unprecedented new condition. We're close to a new agreement, so let's come together. We owe it to taxpayers in both states to restore income tax reciprocity.