State of Wisconsin • DEPARTMENT OF REVENUE

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Tony Evers
Governor

Peter W. Barca
Secretary of Revenue

MEMORANDUM

Date: May 14, 2019

To: Governor Tony Evers

From: Peter W. Barca, Secretary of Revenue PWB

Re: Clarification of Outliers in the April Revenue Collections Report

The Department of Revenue recently released General Purpose Revenue (GPR) collections data through April of fiscal year 2019.

In light of the importance of economic indicators and collections figures, we thought it important to add context to the data that is being released. On a fiscal year-to-date basis, the data show a significant increase in corporate tax collections (+63.6%) this year relative to other tax collections such as general sales & use tax (+3.9%) and individual income tax (+5.7%). Total GPR tax collections inclusive of corporate taxes are up 7.8% using the same measure.

The increase in FY2019 individual and corporate tax revenue is largely the result of the business community's reaction to federal tax law changes which incentivized the shifting of revenue across fiscal years. This shifting of revenue, as opposed to an increase in economic activity is the driving force behind the large corporate tax collections; other states have had similar increases.

Specifically:

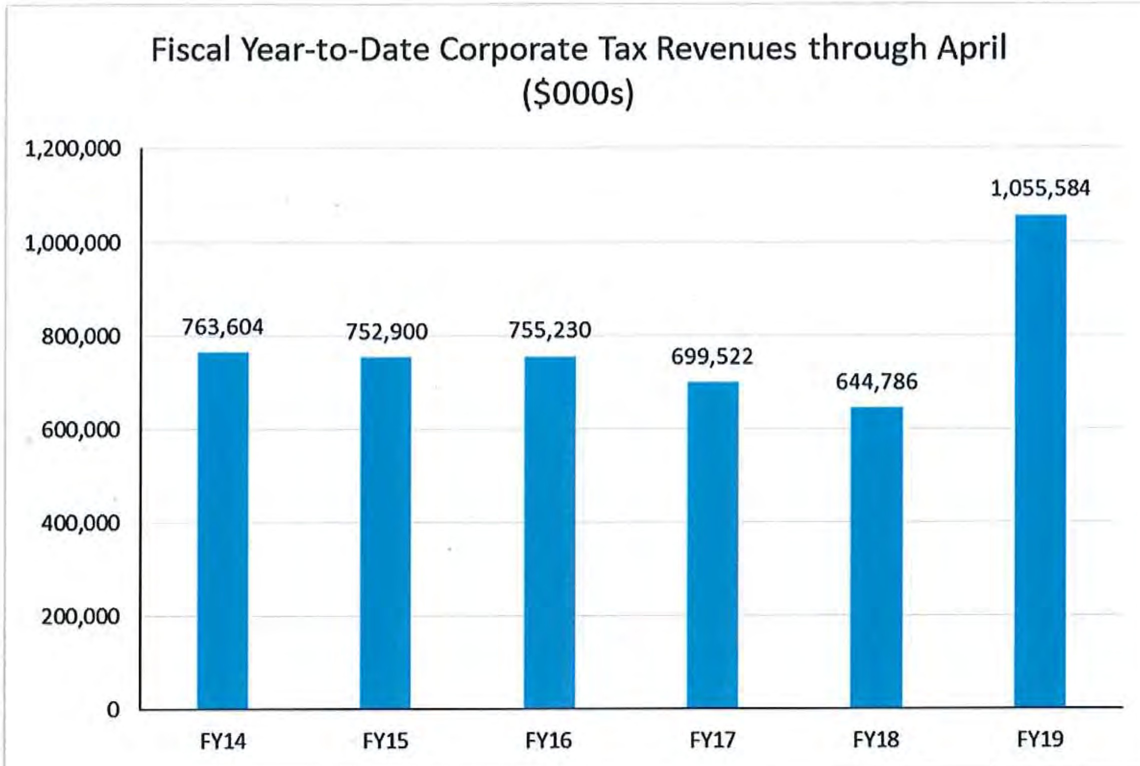
- The federal Tax Cuts and Jobs Act created an environment in which many businesses benefitted by shifting income from 2017 to 2018 to take advantage of lower tax rates. This resulted in suppressed FY18 collections and higher FY19 collections.
- The passage of 2017 WI Act 368 permitted pass-through entities (partnerships and tax option (S) corporations) to be taxed at the entity level instead of the individual level. This option resulted in a shift from individual income taxes to corporate taxes as much of tax liability is now paid by corporate entities rather than flowing through to individuals. The act allowed tax option (S) corporations to be taxed at the entity level beginning January 1, 2018. This resulted in significant one-time "catch up" payments in March 2019 as the bill was not enacted until December of 2018.
- Some additional tax collections are likely the result of additional profits repatriated to the United States under the international provisions of the Tax Cuts and Jobs Act. This is a one-time event that increased FY19 tax collections.

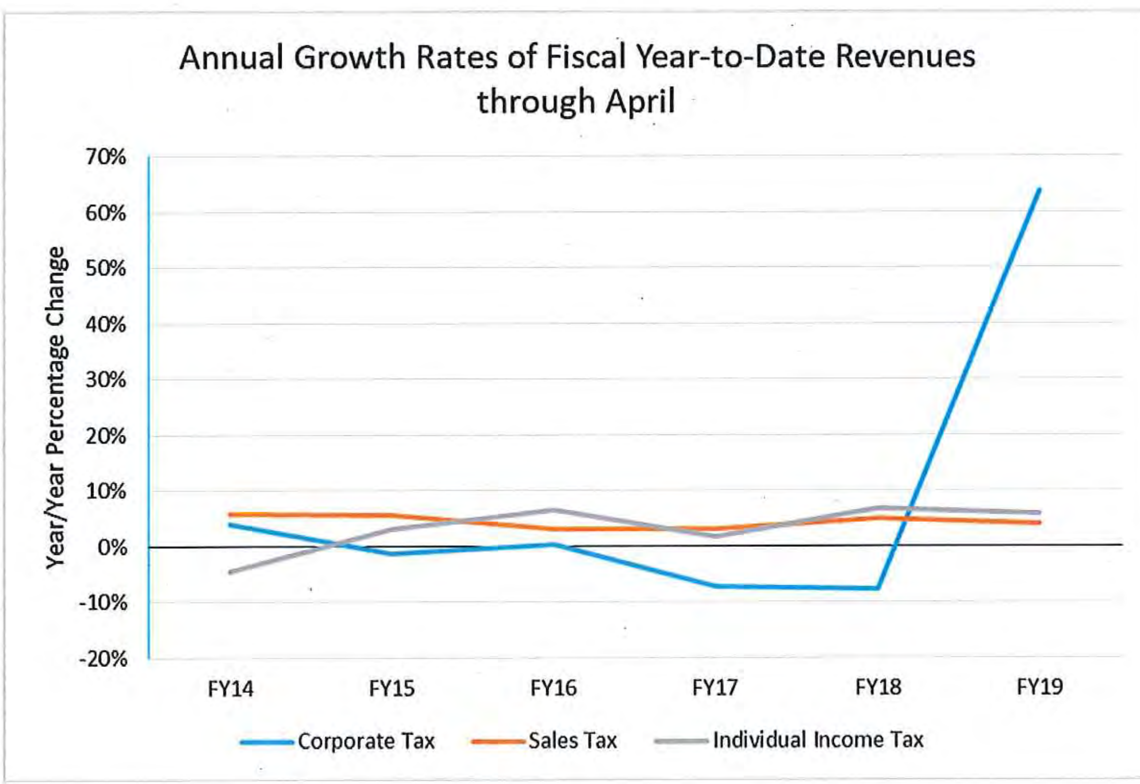
It is important to note that these are significant one-time tax collections and they are not expected to occur in future years. Further, as noted above it is significant that not only are other states also experiencing similar increases, they have similarly concluded that the increases are a one-time anomaly largely due to federal tax changes.

Sales tax collections, which are a more accurate representation of economic activity, show a more modest increase of 3.9%, which is below the 4.9% estimate included in the Legislative Fiscal Bureau's January revenue estimates for FY19. In FY18, sales collections increased 4.3%.

The attached graphs illustrate the anomalous nature of the increase in corporate tax collections compared to individual income and sales/use tax collections.

Please feel free to reach out if you'd like further information or a more in-depth briefing from our team of economists who have examined this very carefully.


Fiscal Year-to-Date Corporate Tax Revenues through April
($000s)
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
763,604
752,900
755,230
699,522
644,786
1,055,584
FY14
FY15
FY16
FY17
FY18
FY19


Annual Growth Rates of Fiscal Year-to-Date Revenues
through April
Year/Year Percentage Change
70%
60%
50%
40%
30%
20%
10%
0%
-10%
-20%
FY14
FY15
FY16
FY17
FY18
FY19
Corporate Tax
Sales Tax
Individual Income Tax