



State of Wisconsin • DEPARTMENT OF REVENUE

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Scott Walker
Governor

Richard G. Chandler
Secretary of Revenue

January 23, 2015

Mr. Mike Huebsch, Secretary
Wisconsin Department of Administration
101 E. Wilson St., 10th Floor
Madison, WI 53707-7864

Dear Secretary Huebsch:

On January 23, 2015, the Legislative Fiscal Bureau sent a letter to the co-chairs of the Joint Committee on Finance regarding revenue estimates. In that letter, the LFB reduced the estimates for general fund tax collections for Fiscal Year 2015 (FY15) in the current 2013-15 biennium by a total of \$174 million compared with the revenue estimates that the Department of Revenue (DOR) provided to the Department of Administration in November of 2014. The LFB also modified the estimates for Fiscal Years 2016 and 2017 (FY16 and FY17) compared with DOR's November estimates.

You have asked DOR to provide you with its review of the LFB's revenue estimates to assist you in reviewing the state's general fund condition and preparing the biennial budget bill which the Governor will submit to the Legislature.

DOR has reviewed recent collection data and economic forecasts. Based on that review, we conclude that revenue collections for FY15 will be \$99 million above the total amount estimated by the LFB. This represents a reduction of \$75 million from DOR's November 2014 estimates. Additional detail on these estimates is provided in Appendix A.

We believe that the LFB estimates for FY16 and FY17 are reasonable and we would not suggest any modifications to those estimates.

Several factors account for the differences between the LFB estimates and the January DOR estimates for FY15: (1) pace of collections, (2) anticipated refunds, and (3) employment projections.

General fund revenue collections through December were ahead of the month-by-month allocation of DOR's November forecast, as shown on the DOR monthly collection report issued on January 20. We believe this indicates that there will be only a small variance from the November forecast by the end of the year.

Refunds in April 2015 will be lower than in 2014 for several reasons. The tax withholding tables were changed in April of 2014 so less money was withheld from people's paychecks, which means refunds will be smaller. The effect of the federal "fiscal cliff" has faded. The increase in federal tax rates which occurred in January of 2013 due to the "fiscal cliff" caused some people to take capital gains in 2012 rather than 2013, which lowered tax year 2013 capital gains revenues. We believe that capital gains taxes will return to a more normal pattern for tax year 2014. In addition, the stock market advances in 2014 will generate a higher level of capital gains for 2014. All of this will reduce refunds and lift capital gains payments compared to prior years.

Finally, recent increases in Wisconsin's employment figures indicate that withholding payments will increase in 2015 above prior forecasts.

In summary, while we believe that the LFB's revenue estimates for FY16 and FY17 are reasonable, we conclude that the FY15 estimates should be \$ 99 million higher than the LFB figure. This is a relatively small percentage figure (0.7% of total annual collections). In the recent past, we have provided you with estimates that differed from the LFB's estimates on one prior occasion, in May of 2012. Revenue forecasting is inherently difficult, and professional differences of opinion will occasionally occur.

The Department of Revenue will continue to monitor state revenue collections and changing economic conditions. We will notify you of any further adjustments that may be appropriate.

Sincerely,



Richard G. Chandler
Secretary of Revenue

Appendix A
Comparative FY15 GPR Tax Revenue Estimates
(Amounts in Millions of Dollars)

<u>Tax Source</u>	<u>Jan 2015 DOR</u>	<u>Jan 2015 LFB</u>
Individual	\$7,400.0	\$7,350.0
Sales	4,875.0	4,880.0
Corporate	992.0	935.0
Utility	371.9	377.9
Excise		
Cigarette	559.8	556.5
Tobacco	69.7	69.3
Liquor	47.4	47.6
Beer	8.8	8.8
Insurance	175.4	176.0
Miscellaneous	68.3	68.7
TOTAL	\$14,568.3	\$14,469.8