WISCONSIN LEGISLATURE

P.O. Box 7882 • Madison, WI 53707-7882

September 25, 2012

Dear Colleague,

We appreciate the support you have shown and the efforts you have made to restore the tax reciprocity agreement between our two states. However, we are deeply concerned that the deadline to restore reciprocity is near without a new agreement in place. Without an agreement, taxpayers in both states will be forced to continue filing dual returns with added confusion, complexity, and cost. As you know, October 1st is the deadline by which an agreement must be made for the 2013 tax year.

When we met in St. Paul this February along with representatives from both states' Departments of Revenue there was a mutual desire to address the issues that led to the termination of reciprocity. The Legislative consensus at the meeting was to resolve the issues that led to the termination of our forty-year old agreement and restore reciprocity for January 2013. We identified those issues as:

- The lag time in payments, as Minnesota was waiting a full year for a payment on taxes foregone.
- Concerns that reciprocity payments were based on an outdated benchmark study.

Following our meeting in February, the Wisconsin Department of Revenue offered two separate proposals on March 9th and April 23rd to address the concerns Minnesota raised about timing of payments and procedures for calculating the amount of tax foregone by each state. Under the proposals, Wisconsin has agreed to:

- Make estimated quarterly payments, including an end of the year reconciliation payment.
- Coordinate with Minnesota to conduct a new benchmark study that would be updated every five years to better identify the number of border crossers and the amount of taxes involved.

In 2009, Governor Tim Pawlenty terminated the reciprocity agreement because "the current process and timing results in a substantial delay of Wisconsin's payment to Minnesota and that delay is no longer acceptable." The initial discussions from 2009 and at our meeting in February cited the lag time in payments and that the data being used to calculate payments was outdated. It was the understanding that these were the issues that needed to be addressed in order to restore reciprocity that shaped our negotiations.

We had hoped our two Departments of Revenue could move forward with an agreement based on all of the items on which both states could agree. Yet, the Minnesota Department of Revenue has introduced a new element into the negotiations. The Minnesota Department of Revenue is now insisting that Wisconsin pay an additional amount to compensate Minnesota for increased taxes collected from their residents who work in Wisconsin in the absence of a reciprocity agreement. Because Minnesota law limits the credit taxpayers can take for taxes paid to another state, some Minnesota residents have been paying higher income taxes resulting in higher state tax revenues for Minnesota since the termination of reciprocity.

This additional sum of money was never part of our two states' tax reciprocity agreement, it was not addressed in Governor Pawlenty's letter to Wisconsin terminating reciprocity, and it was not mentioned in any of the initial discussions between our two states when reciprocity ended. Wisconsin is unable to fulfill this request because:

- It would require a change to our state statutes that would delay an agreement until the 2014 tax year at the earliest, as the Wisconsin Legislature is not in session again until January 2013.
- Our legislature cannot take a position where we would agree to subsidize Minnesota for their tax policy, whereby some Minnesota residents are subjected to pay more in taxes simply because they work in Wisconsin. Minnesota does not include this provision in tax reciprocity agreements with other states.

We are concerned that the insistence by Minnesota Department of Revenue that Wisconsin compensate for Minnesota's tax policy, a policy we do not have in Wisconsin, will mean that there is no feasible way for our states to reinstate reciprocity for the 2013 tax year.

We want to reiterate that we believe the Wisconsin Department of Revenue has made every effort and done everything in their power to address the problems cited by Minnesota in 2009 and at our meeting in February. We believe that you share our desire to solve this impasse on behalf of the many frustrated citizens who have been inconvenienced and some of whom have had to pay more in taxes in the absence of reciprocity.

There is a way to restore the income tax reciprocity agreement we have had in place for the past 40 years, an agreement that has been a great service to taxpayers on both sides of our border, but we cannot move forward as long as Minnesota Department of Revenue continues to insist on this provision.

There are only a few days remaining before the October 1st deadline and we call upon you to urge the Minnesota Department of Revenue to agree to the proposal put forth by the Wisconsin Department of Revenue that offers to fix the problems that led to the termination reciprocity. As you are aware, taxpayers in both states are depending on us to find compromise and reach an agreement to restore this important program. Your continued attention to this matter at this vital time is greatly appreciated.

Sincerely,

Senator Sheila Harsdorf	Senator Bob Jauch	Senator Jennifer Shilling
Senator Kathleen Vinehout	Representative Nick Milroy	Representative Roger Rivard
Representative Chris Danou	Representative Dean Knudson	Representative Jill Billings
Representative Lee Nerison	Representative Steve Doyle	Representative Warren Petryk
Representative Erik Severson	Representative John Murtha	Representative Tom Larson
Senator Terry Moulton	Representative Kathy Bernier	