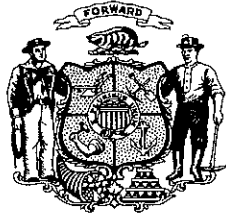


STATE OF WISCONSIN

SENATE CHAIR
Alberta Darling

317 East, State Capitol
P.O. Box 7882
Madison, WI 53707-7882
Phone: (608) 266-5830



ASSEMBLY CHAIR
John Nygren

308 East, State Capitol
P.O. Box 8953
Madison, WI 53708-8953
Phone: (608) 266-2343

JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative John Nygren

Date: December 30, 2019

Re: DOR Report to JFC

Attached is the new auditor revenue generation report from the Department of Revenue, pursuant to 2015 Wisconsin Act 55.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

AD:JN:jm



State of Wisconsin • DEPARTMENT OF REVENUE

2135 RIMROCK ROAD • Mail Stop 624A • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX (608) 266-5718
<http://www.revenue.wi.gov>

Tony Evers
Governor

Peter W. Barca
Secretary of Revenue

December 30, 2019

Senator Alberta Darling, Co-Chair
Joint Committee on Finance
Room 317 East, State Capitol

Representative John Nygren, Co-Chair
Joint Committee on Finance
Room 309 East, State Capitol

DEC 30 2019

J. Finance

Dear Co-Chairs Darling and Nygren:

Enclosed is the Fiscal Year 2019 summary report related to the audit initiative created by 2015 Wisconsin Act 55.

Please feel free to contact me with any questions that you may have.

Sincerely,

Peter W. Barca
Secretary of Revenue

cc: Joint Committee on Finance Members

2015 Wisconsin Act 55: New Auditor Revenue Generation Report

December 30, 2019

Background

The 2015-2017 biennial budget, Wisconsin Act 55, requires the Department of Revenue to annually report to the Joint Committee on Finance the actual or estimated amounts of state tax revenues generated by, and expenditures associated with, the additional full-time audit-related positions created by Act 55. These include auditors and other audit-related positions, such as supervisors and resolution officers, which support audit functions and related appeals.

This report provides information on the revenues generated by and the expenditures associated with the Act 55 audit-related positions in FY 2019.

Act 55 provided additional positions in four distinct areas: (1) nexus investigations related to sales and use and corporation franchise and income taxes; (2) out-of-state sales tax audits of non-Wisconsin businesses with liability in Wisconsin; (3) corporation franchise and income tax audits of the largest multi-state apportionment entities with liability in Wisconsin; and (4) pass-through entity audits.

Gross Expenditures

Act 55 appropriated \$13,605,100 to fund 102 positions for FY 2019.

Compensation, including fringe and recruitment costs, totaled \$12,822,037. Training expenses totaled \$38,553. One-time facility renovations plus ongoing rent payments associated with space used by the positions totaled \$500,687. Equipment, travel and supplies for the employees totaled \$243,823. Total expenses related to this initiative totaled \$13,605,100.

Revenue Generation

The focus of the increased audit activity was on out-of-state entities. Audit bills that were not paid by the due dates became delinquent and were sent to DOR's Compliance Bureau for collection. Those revenues are separately stated below but were generated because of the increased audit activity. Both timely-paid audit assessments and revenues collected from delinquent audit assessments determine overall revenue generation for each category specified.

Nexus Auditors

The Act 55 goal for nexus auditors for FY 2019 was \$8.0 million. These auditors generated \$82.4 million. We continue to see significant potential in identifying businesses that should be collecting, filing and paying Wisconsin taxes but are not. In addition, these businesses that are brought into compliance generate ongoing revenues in future years.

Out-of-State Sales and Use Tax Auditors

The Act 55 goal for out-of-state sales and use tax auditors for FY 2019 was \$15.0 million. These auditors generated \$62.9 million. This total includes \$2.0 million collected after assessment due dates. Again, we see potential for more revenues here as out-of-state businesses comply with the 2018 US Supreme Court decision in *Wayfair*.

Pass-Through Entity Auditors

The Act 55 goal for the pass-through entity auditors for FY 2019 was \$20.0 million. These auditors generated \$22.4 million. This includes \$3.9 million collected after assessment due dates. We see potential for more revenues based on our audit selection analytics.

Corporation Franchise/Income Tax Auditors

The Act 55 goal for corporation franchise and income tax auditors for FY 2019 was \$39.0 million. DOR's corporation auditors collected \$89.4 million in FY 2019 but these collections were considered "base" collections and not additional collections. However, beyond the \$89.4 million collected, DOR issued \$636.2 million in proposed assessments that were presented to corporations and pending at the end of the fiscal year. Also, there was an additional \$132.5 million that was assessed in FY 2019 and pending on appeal before DOR's Resolution Office. It's expected that the State will collect a significant portion of these proposed and appealed assessments.

Overall Total

The Act 55 goal for FY 2019 was additional audit collections of \$82.0 million. The new auditor and audit-related positions generated \$159.9 million, with an additional \$857 million in assessments pending payment or appeal resolution as of June 30, 2019. The return on investment is 11.8 to 1.

Additional Information

Based on audit collections through December 2019, we believe that the new auditor positions will generate at least \$60 million more in FY20 than in FY19, with most of the growth being in corporation franchise/income taxes.

Additional billing and collection agents were approved in the 2017-19 biennial budget. Their collection goal was \$26.5 million in FY 2019. These positions actually collected \$27.3 million, exceeding the goal by \$800,000.

In addition, the Compliance Bureau collected \$322 million in delinquent amounts owed in FY 2019, which was \$25.1 million more than in the record-setting prior year.

In summary, revenue generation in three of four initiatives covered by Act 55 was above the goal. The fourth initiative continues to result in assessments but appeals of those assessments are resulting in slower revenue generation. Total revenue generation of \$159.9 million exceeded the goal of \$82 million by \$77.9 million.