

FISCAL ESTIMATE FORM

2009 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB # 09-

INTRODUCTION #

Admin. Rule # Chapter tax 1.12 through 3.03

Subject PROPOSED ORDER OF THE DEPARTMENT OF REVENUE REPEALING, RENUMBERING, RENUMBERING AND AMENDING, AMENDING, REPEALING AND RECREATING, AND CREATING RULES

Fiscal Effect

State: No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

- Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation

- Increase Costs - May be Possible to Absorb Within Agency's Budget Yes No
 Decrease Costs

Local: No Local Government Costs

1. Increase Costs
 Permissive Mandatory
2. Decrease Costs
 Permissive Mandatory
3. Increase Revenues
 Permissive Mandatory
4. Decrease Revenues
 Permissive Mandatory

5. Types of Local Governmental Units Affected:
 Towns Villages Cities
 Counties Others _____
 School Districts WTCS Districts

Fund Sources Affected

- GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations

20.566 (1) (a)

Assumptions Used in Arriving at Fiscal Estimate:

The proposed rule order makes various changes to Chapters Tax 1.12 through 3.03. The proposed changes do the following:

- Expand the taxes, fees, and other amounts required to be paid or deposited using electronic funds transfer (EFT) in Chapter Tax 1 and the returns, reports, and refund claims the department may require be filed electronically in Chapter Tax 2.
- Incorporate the requirements of 2009 Wisconsin Acts 2 and 28 into administrative provisions of Chapters Tax 1, 2, and 3.
- Provide further interpretation and explanation relating to the addition and subtraction modifications and disclosure provisions for related entity expenses (Tax 3.01).
- Provide additional guidance with respect to the treatment of withholding tax for pass-through entities in cases where withholding is also required for non-resident entertainers and for lottery winnings (Tax 3.02).

The provisions relating to 2009 Wisconsin Acts 2 and 28 and related entity expenses interpret existing statutes and therefore have no fiscal effect. The provisions relating to treatment of withholding for pass-through entities are expected to generate minimal administrative savings. The provisions relating to electronic fund transfer payments and to electronic filing of returns, reports, and refund claims are anticipated to reduce administrative expenditures by an estimated \$152,900 annually as described below.

Every year the Department of Revenue (DOR) processes millions of tax returns, deposits, and refunds. To improve the Department's efficiency and take advantage of new technologies, electronic processing of these

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Long-Range Fiscal Implications:

Agency/Prepared by	Authorized Signature/Telephone No.	Date
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transactions has increased over time and the dependence on paper transactions, requiring manual processing, has declined. For example, the share of individual income tax withholding collections received through electronic funds transfer (EFT) increased from 79% in FY05 to 87% in FY08.

While a large portion of taxes are received electronically when measured by the dollars remitted, the percentage of transactions conducted electronically is lower. While 87%, 74%, and 98% of withholding, sales, and cigarette tax receipts were received electronically in FY08, only 36%, 47%, and 35% of the transactions for each of these taxes, respectively, were made electronically in the same period. This gap reflects the large number of small transactions that are still paper-based. For the sales tax alone, roughly a half-million returns were submitted on paper forms in each of the last several years.

Section 73.029 of the statutes authorizes DOR to promulgate rules to require EFT for the payment of taxes to the Department. Under this section, DOR already requires EFT for the payment of taxes exceeding certain thresholds. In general, EFT is required if the amount of taxes to be submitted exceeds \$40,000 annually. For income tax withholding and sales tax deposits, however, EFT may be required for those with total annual deposits of \$10,000 or more. In addition, the Department may require certain returns to be submitted electronically. The requirements for electronic filing and transfers may be waived by the Secretary of Revenue, however, if the Department determines that the rules cause an undue hardship for a taxpayer.

The proposed rule expands the taxes and fees required to be paid or deposited using EFT. The proposed rule reduces the general threshold over which EFT is required from the current \$40,000 to \$1,000 annually. For withholding and sales tax deposits, the threshold is reduced from \$10,000 to \$300 annually. It also expands the returns, reports, and refund claims the Department may require to be filed electronically. The rule includes or retains exceptions to the requirements to file and pay electronically for situations of undue hardship.

Each manual transaction involving a paper based return or payment takes more staff time and is more expensive to process than if submitted electronically. The proposed rule will increase the number of transactions and dollar amounts filed electronically thus reducing the amount of paper processed by the Department—leading to a more efficient use of the Department’s resources. Realized cost savings will improve the Department's ability to absorb recent budget reductions.

The Department of Revenue estimates a potential 88% decrease in paper sales tax filings (from 422,000 to 48,000 annually) under the proposed rule, which translates into a cost savings of \$152,900. This also would result in electronic sales tax filings increasing from 52% to 95% of all sales tax filings (increasing from 462,300 to 835,900 of 884,259 total sales tax returns based on a recent 12-month period). Additional cost savings may also be achieved as other filings, especially individual income tax withholdings, are shifted to electronic form. The timeline for cost savings, however, will be dependent on the pace at which this shift is implemented. Cost savings will also be reduced to the degrees to which waivers from the proposed rule are granted.

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Long-Range Fiscal Implications:

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FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

2009 Session

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Admin. Rule #
 Chapter
 tax 1.12 to 3.03

Subject PROPOSED ORDER OF THE DEPARTMENT OF REVENUE REPEALING, RENUMBERING, RENUMBERING AND AMENDING, AMENDING, REPEALING AND RECREATING, AND CREATING RULES

I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	Annualized Fiscal impact on State funds from:	
A. State Costs by Category	Increased Costs	Decreased Costs
State Operations - Salaries and Fringe	\$	\$ -
(FTE Position Changes)	()	-
State Operations-Other Costs		-152,900
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	\$	\$ - see text
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$	\$ - 152,900
FED		-
PRO/PRS		-
SEG/SEG-S	\$	-
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	Increased Rev.	Decreased Rev.
GPR Taxes	\$	\$ -
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	\$	\$ -

NET ANNUALIZED FISCAL IMPACT

STATE

LOCAL

NET CHANGE IN COSTS	\$ -152,900	\$ 0
NET CHANGE IN REVENUES	\$ 0	\$ 0

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