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Education and Income Tax Reciprocity Agreements

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Wisconsin currently participates in several formal reciprocity agreements with other states under which residents of each state, or region of the state, are treated as residents of the other state for a specific purpose. These agreements relate to higher education tuition, income tax, the transfer of inmates in correctional facilities, admission fees at certain state parks, and fishing licenses.

This paper provides information regarding education and income tax reciprocity agreements. The first section of the paper provides a description of the current agreements for reciprocal tuition for postsecondary education. Information on income tax reciprocity agreements is provided in the second section.

Reciprocity Agreements for Postsecondary Education

Wisconsin's reciprocity agreements for postsecondary education are authorized under two separate sections of the statutes. Section 39.42 of the statutes applies to agreements between any publicly-supported, postsecondary institution in Wisconsin and any other state, while s. 39.47 establishes an agreement between Wisconsin and Minnesota. Both sections allow for the waiver of nonresident tuition for participating students.

Minnesota-Wisconsin Tuition Reciprocity Agreement -- University of Wisconsin System

Under the Minnesota-Wisconsin reciprocity agreement, residents can attend public universities, community colleges, and technical colleges in the adjacent state without having to pay nonresident tuition. Students participating under the agreement are treated as state residents for admission purposes.

The stated purpose of the agreement is to "continue to improve the postsecondary education advantages of residents of Minnesota and Wisconsin through greater availability and accessibility of postsecondary education opportunities and to achieve improved effectiveness and economy in meeting the postsecondary education needs of Minnesota and Wisconsin residents through cooperative planning efforts." The agreement is administered jointly by the Minnesota Office of Higher Education (MOHE) and the Wisconsin Higher Educational Aids Board (HEAB). In Wisconsin, any changes to the agreement must be approved by the Joint Committee on Finance. In Minnesota, changes are approved by the University of Minnesota Board of Regents.

History

Legislation authorizing a tuition reciprocity agreement between Minnesota and Wisconsin was enacted by the Legislature in 1965 and initially included only three UW campuses (La Crosse, Superior, and River Falls), seven Minnesota junior colleges, UM-Twin Cities, UM-Duluth, and Winona State. The agreement provided for the transfer of a limited number of students from each state, with the number of students attending individual institutions specified. To be eligible, the student had to be an undergraduate whose legal residence or high school was no more than 40 miles from the institution attended in the other state.

With the creation of the current University of Wisconsin System in 1971, the Legislature authorized HEAB to negotiate tuition reciprocity agreements under Section 39.42 of the statutes and, in 1973, the Legislature authorized separate agreements with Minnesota under Section 39.47 of the statutes. In 1972-73, the restrictions based on student residence and eligible campuses were eliminated and reciprocity was extended to vocational and technical college students.

In 1974-75, the agreement was revised to include graduate and professional students, including those attending the Minnesota School of Veterinary Medicine, and all restrictions on the number of participating students were lifted. In addition, each state was to determine annually the "net tuition loss" resulting from charging resident rather than nonresident tuition and the state with the greatest tuition loss would be reimbursed by the other state. The reimbursement did not apply to students enrolled in technical or vocational schools as there was no provision for the exchange of funds between the states.

When the agreement was renegotiated for the 1979-80 academic year, a major change was made in the determination of the liability obligation of each state. Since Minnesota's resident tuition had historically been higher than Wisconsin's, it was agreed that the amount a state owed would be based on a formula that reflected actual educational costs rather than the tuition differential. Each state's liability would be the difference between the total amount of tuition paid by its students attending schools in the other state and the calculated cost of educating those students. The state with the higher liability obligation would pay the other state the difference between the two states' liability obligations. This method of calculating liability is still used under the current agreement.

In 1987-88, medical, dental, and veterinary students were excluded from the agreement at Wisconsin's request. Wisconsin made a one-time payment of $1.1 million to Minnesota to compensate for this change.

Renewal in 1997 and 1998

Several modifications were made to the agreement in 1997 and 1998. These changes were made to address two concerns the states' had in regard to the agreement. First, while resident tuition charged by Minnesota institutions had historically been higher than that charged by Wisconsin institutions, by 1997-98, this difference had become pronounced, especially at the Twin Cities and Madison campuses. In that year, full-time resident undergraduate tuition at UW-Madison was $2,860 while full-time resident undergraduate tuition at UM-Twin Cities was $4,158. As a result, Wisconsin resident students enrolled in 12 credits at UM-Twin Cities were charged almost $1,300 less than similar Minnesota resident students at the same campus. Similarly, Wisconsin resident students attending Minnesota's law school paid over $2,900 less than Minnesota resident students. This situation proved awkward for Minnesota and that state sought to increase tuition rates paid by Wisconsin resident students to reduce this tuition differential.

Second, as this tuition differential increased and more Wisconsin students enrolled in Minnesota institutions under the agreement, Wisconsin's liability grew and the payments the state received from Minnesota under the agreement decreased. In 1995-96, Wisconsin's liability was greater that Minnesota's for the first time and the state was required to make a payment to Minnesota.

To address these issues, several changes were made to the agreement and Wisconsin law. Prior to 1997, Wisconsin law provided that tuition charged to reciprocity students could not exceed the tuition charged to a resident student at a comparable public institution located in his or her state of residence. Under 1997 Act 27, this was changed to provide that reciprocity tuition could not exceed the higher of the resident tuition rates charged at comparable institutions in the two states. This law change allowed the University of Minnesota law school to charge Wisconsin reciprocity students the Minnesota resident rate beginning in 1997-98.

In 1998, the agreement was modified to permit UM-Twin Cities to charge Wisconsin resident undergraduate students a "tuition gap surcharge" equal to 25% of the difference between resident tuition rates at UM-Twin Cities and UW-Madison. Students enrolled in institutions that charged differential tuition were charged the resident tuition rate at a comparable school in their home state plus the amount of the differential. All other undergraduate students continued to be charged an amount of tuition equal to that charged a resident student at a comparable institution in the student's home state.

The agreement was also changed such that Wisconsin students attending Minnesota institutions would be charged the full-time tuition rate when enrolled in 12 credits or more. Prior to this change, Wisconsin students paid per credit when enrolled in up to 14 credits. In addition, all graduate students were charged the higher of states' resident tuition rates under the modified agreement.

Other more administrative changes were also made to the agreement and Wisconsin law. Under 1997 Act 200, HEAB and MOHE are required to prepare an administrative memorandum each year to be submitted to the Joint Committee on Finance for approval through a 14-day passive review process. This administrative memorandum establishes policies and procedures for the implementation of the agreement for the upcoming academic year. The administrative memorandum also includes a description of how the reciprocal fee structure is to be determined. Prior to this law change, HEAB and MOHE had prepared an annual administrative memorandum, but it was not subject to approval by the Joint Committee on Finance or the Legislature.

In addition, the 1998 agreement did not include an expiration date. As a result, the agreement was automatically renewed each year unless terminated or modified with the consent of both states.

Current Agreement

The agreement was most recently modified in 2007. Under the 2007 modifications, beginning in 2008-09, new students enrolled under the program are charged the higher of the resident tuition rates charged at comparable institutions in the two states. As under previous agreements, UW-Madison is considered to be comparable to UM-Twin Cities and UM-Morris, UW-Milwaukee is comparable to UM-Duluth, the UW comprehensive campuses are comparable to the four-year Minnesota State Colleges and Universities campuses, and the UW Colleges are comparable to Minnesota community and consolidated colleges.

In 2010-11, all Wisconsin students who first enrolled in 2008-09 or thereafter are charged the Minnesota tuition rate, which is the higher of the tuition rates. Students enrolled prior to the 2008-09 are charged as under the 1998 agreement and the 2006-07 administrative memorandum as long as they are continuously enrolled or until the end of the 2011-12.

The 2007 agreement also established the "Wisconsin reciprocity supplement program." Under this program, Wisconsin students charged tuition under the 2007 agreement receive a supplement payment equal to the difference between the tuition charged them and the amount of tuition they would have been charged under the 1998 agreement and the 2006-07 administrative memorandum. As a result, most Wisconsin resident students who enrolled in Minnesota institutions beginning in the 2008-09 academic year or thereafter are *charged* more tuition than they would have under the prior agreement but *pay* the same amount.

This Wisconsin reciprocity supplement program is administered by the Minnesota institutions and the supplement is applied directly to the student's tuition bill. HEAB makes a payment to the University of Minnesota and the Minnesota State Colleges and Universities systems equal to the sum of all reciprocity supplements provided to Wisconsin resident students following the conclusion of each academic term. These payments totaled $2.0 million in 2008-09 and $3.8 million in 2009-10. These payments reduce Wisconsin's net obligation at the end of each calendar year on a dollar-for-dollar basis.

Table 1: Tuition Reciprocity Costs and Tuition Per Credit – 2009-10

Institution Category	Cost Per Credit: Instructional	Cost Per Credit: Reciprocity	Tuition Per Credit: Minnesota Reciprocity	Tuition Per Credit: Wisconsin Resident
Doctoral Campuses				
Undergraduates				
UW-Madison / UM-Twin Cities	$452.64	$289.69	$380.00	$303.99
UW-Milwaukee / UM-Duluth	347.09	222.14	367.92	287.10
Graduate Students				
UW-Madison / UM-Twin Cities	1,268.71	811.97	700.75	593.73
UW-Milwaukee / UM-Duluth	1,124.81	719.88	700.75	574.12
Nondoctoral Campuses				
Undergraduate Students	298.24	190.87	238.89	223.49
Graduate Students	714.25	457.12	393.65	372.55
UW-Colleges / MN College System	248.66	159.14	177.83	177.83

The effect of the 2007 agreement is to allow the state of Wisconsin to make payments directly to the University of Minnesota and the Minnesota State Colleges and Universities systems for costs incurred by Wisconsin reciprocity students. Previously, all payments had been made to the state of Minnesota. The changes made to the agreement will not result in a change in the amount of tuition *paid* by Wisconsin students or, when fully phased in, the amount of total annual payments made by Wisconsin.

Reciprocity Costs and the Calculation of Liability Obligation

Under the current agreement, each state's liability is difference between the total amount of tuition charged to its students attending institutions in the other state and the calculated cost of educating those students. The state with the higher liability pays the difference to the other state. In determining liability, the two states have agreed to use what is known as the "reciprocity cost" instead of total educational costs. Reciprocity cost is that portion of total student costs that varies with changes in enrollment and excludes fixed costs. Currently, reciprocity cost is defined as 64% of Wisconsin's total per credit instructional costs. Wisconsin costs are used to calculate liability because it is assumed that instructional costs are similar for both states.

Table 1 shows the per credit instructional cost, reciprocity cost, tuition paid by Minnesota students attending Wisconsin institutions, and Wisconsin resident tuition for 2009-10.

In prior years, when reciprocity cost per credit exceeded reciprocity tuition for all classes of students, the information shown in Table 1 could have easily been used to calculate Wisconsin's liability due to a single Wisconsin student attending a Minnesota institution by subtracting the amount paid in tuition from the reciprocity cost. This method can still be used for all reciprocity graduate students for whom reciprocity costs continue to exceed tuition. For example, under the agreement, a Wisconsin graduate student attending UM-Twin Cities in 2009-10 would have paid the higher of the Minnesota and the Wisconsin graduate tuition rates. In that year, Minnesota tuition was higher and so a Wisconsin student would have paid that tuition, equal to $700.75 per credit as shown in the table. The reciprocity cost for one graduate credit was $811.97 at UM-Twin Cities, which is $111.22 higher than the tuition paid by the student. Therefore, for a Wisconsin resident graduate student who took one credit at UM-Twin Cities, Wisconsin owed Minnesota $111.22.

For all undergraduate reciprocity students the result of the calculation differs. While liability is still determined by subtracting the amount paid in tuition from the reciprocity cost, tuition for these students is now greater than the corresponding reciprocity cost. This excess tuition reduces each state's obligation to the other. For example, a Minnesota undergraduate student who attended UW-Madison in 2009-10 paid the Minnesota reciprocity tuition rate, or $380 for one credit. This exceeded the reciprocity cost per credit at UW-Madison, which was $289.69 in that year, by $90.31. Therefore, for a Minnesota resident undergraduate student taking one credit at UW-Madison, Minnesota's overall obligation to Wisconsin would be reduced by $90.31.

Reciprocity students, except those attending UW-Stout, pay tuition according to a plateau system. Under this system, students enrolled in UW institutions pay tuition per credit up to 12 credits and students enrolled in Minnesota institutions are charged per credit up to 12 or 13 credits depending on the institution. After that, a flat tuition rate is charged such that students taking 12 or 13 through 18 credits all pay the same rate. However, under the reciprocity agreement, each state is obligated to pay for the total number of credits taken by its reciprocity students, regardless of how many credits any individual student is taking. For example, a Minnesota resident attending UW-River Falls paid a per credit tuition rate of $238.89 in 2009-10. If that student enrolled in 16 credits in one semester, he or she would have paid $2,866.68 in tuition, equal to 12 times the per credit rate, under the plateau system. Minnesota, on the other hand, would have been responsible for the payment of the reciprocity cost for each of the 16 credits, or a total of $3,053.92. Minnesota's liability for the student is calculated by subtracting the tuition paid by the student from the total reciprocity cost associated with the number of credits taken by that student. In this example, Minnesota's liability for this student is $187.24, even though the per credit tuition paid by the student ($238.89) is greater than the per credit reciprocity cost ($190.87).

Reciprocity Payments

Under the agreement, the state with the higher liability obligation pays the other state the difference between the two states' liability obligation following the conclusion of each academic year. Table 2 shows enrollments, liabilities, the reciprocity payment, and, beginning in 2008-09, total supplemental payments for each year from 1999-00 to 2008-09. [As of this writing, the two states have not determined the reciprocity payments for 2009-10.]

In each year since 2001-02, Wisconsin's liability

Table 2: MN-WI Reciprocity Enrollment and Payment History

Academic	MN Students Enrolled in WI		WI Students Enrolled in MN		Reciprocity	Total Supplemental	Tuition Differential	Net Effect on GPR
Year	Number	Net Cost	Number	Net Cost	Payment*	Payment	GPR-Earned	Balance
1999-00	12,742	$20,932,068	9,283	$18,446,571	-$2,485,497	--	$2,869,433	$5,354,930
2000-01	13,022	22,793,477	9,414	20,362,958	-2,430,518	--	4,905,299	7,335,817
2001-02	13,142	20,592,614	9,816	20,895,356	302,741	--	6,535,256	6,232,515
2002-03	13,209	19,200,118	10,487	22,307,745	3,106,725	--	8,423,068	5,316,343
2003-04	13,277	10,821,798	11,014	16,984,994	6,163,196	--	7,683,385	1,520,189
2004-05	13,139	6,811,842	11,409	13,326,601	6,514,759	--	8,204,476	1,689,717
2005-06	13,595	2,540,213	11,418	10,310,750	7,770,537	--	8,685,989	915,452
2006-07	13,686	1,092,658	11,646	11,109,809	10,017,151	--	9,658,594	-358,557
2007-08	13,726	1,884,647	11,308	12,414,600	10,529,953	--	9,063,320	-1,466,633
2008-09	14,034	2,041,904	10,690	11,260,345	9,218,441	2,030,834	8,944,233	-2,305,042

*Payment made to Wisconsin by Minnesota. The reciprocity payment is made in December of the following fiscal year.
Note: Enrollments shown are for fall semester only.

obligation has been greater than Minnesota's, resulting in payments by Wisconsin to Minnesota. These payments are made from a general purpose revenue (GPR) sum sufficient appropriation established for this purpose.

Before 1995-96, Minnesota made a payment to Wisconsin in each year. Generally, these payments reflected the relatively high number of Minnesota students attending Wisconsin institutions under the agreement. This payment peaked in 1978-79, before the 1979-80 changes, and again in 1990-91.

However, since the establishment of the agreement, the number of Wisconsin students studying in Minnesota has grown greatly, outpacing the growth in the number of Minnesota students studying in Wisconsin. As the gap between the number of reciprocity students from each state narrowed, the payment Wisconsin received from Minnesota decreased. Finally, in 1995-96, Wisconsin was required to make a payment to Minnesota for the first time. Although more Minnesota resident students were still enrolled under the program, Wisconsin students paid lower tuition and therefore paid a lesser portion of their own costs. This means that Wisconsin has a higher liability per student. In 1995-96, the difference in enrollments no longer outweighed Wisconsin's higher liability per student.

Changes made to the agreement in 1997 and 1998 increased the total tuition paid by Wisconsin residents and decreased Wisconsin's total liability obligation. As a result, Wisconsin was not required to make a payment to Minnesota from 1998-99 through 2000-01. However, Wisconsin resumed making reciprocity payments to Minnesota for 2001-02 and, since that time, these payments have grown. While for the 2001-02 academic year, Wisconsin's reciprocity payment to Minnesota was $302,741, for 2008-09, it was $9,218,441. (Supplemental payments made to the University of Minnesota and the Minnesota State Colleges and Universities for the 2008-09 year totaled $2,030,834. Total payments made by Wisconsin for the 2008-09 year were therefore $11,249,275.)

Wisconsin's increasing reciprocity payments are the result of two factors: the increase in the number of credits taken by Wisconsin residents at Minnesota institutions, and the decreasing gap between reciprocity tuition and reciprocity cost per credit. Since 2000-01, the total number of credits taken by Wisconsin residents at Minnesota institutions has increased from approximately 260,300 to 305,700 in 2008-09, an increase of 17%. During the same period total credits taken by Minnesota students at Wisconsin increased from 364,600 to 393,900, an increase of 8%. This has caused Wisconsin's liability to increase at a faster rate than Minnesota's.

The second factor related to Wisconsin's increased payments to Minnesota is that tuition in both states has grown at a much faster pace than reciprocity costs. For example, the reciprocity cost per credit at the comprehensive campuses increased by 17% from 2001-02 to 2008-09 while tuition rates for both Minnesota and Wisconsin reciprocity students increased by more than 80%. With tuition growing faster than costs, the portion of reciprocity costs paid by students has increased resulting in declines in liability for both states. Indeed, Minnesota's liability fell from $22.8 million in 2000-01 to $2.0 million in 2008-09. During the same period, Wisconsin's liability fell from $20.4 million to $11.3 million. Because its tuition rates were initially lower, Wisconsin continues to have a larger liability per credit than Minnesota despite Wisconsin tuition rates increasing at a slightly greater rate.

2012-13 and Beyond. Beginning in the 2008-09 academic year, HEAB has made a payment to the University of Minnesota and the Minnesota State Colleges and Universities systems following the conclusion of each academic term. The amount of these payments is equal to the sum of all reciprocity supplements provided to Wisconsin resident students. These payments reduce Wisconsin's net obligation at the end of each calendar year on a dollar-for-dollar basis. It is anticipated that, beginning in 2012-13, when all students are being charged under the 2007 agreement, Wisconsin will no longer make a reciprocity payment to Minnesota at the end of each year.

Tuition Differential

As shown in Table 1, the amount of tuition paid per credit by Minnesota reciprocity students is often higher than that paid by Wisconsin resident students. Therefore, UW System institutions collect more tuition revenue from Minnesota residents than would otherwise be paid by Wisconsin residents. The University does not retain this additional tuition; instead, Wisconsin law requires that the money be deposited into the state's general fund as a miscellaneous revenue termed "GPR-Earned." The total amount of reciprocity tuition deposited in the state's general fund is shown in Table 2 as "tuition differential GPR-earned." In 2008-09, the total amount of these tuition differentials was $8,944,233.

Finally, Table 2 shows the net effect of the agreement on the GPR balance, which is the sum of the reciprocity payment and the tuition differential GPR-earned. Through 2005-06, the payments made by Wisconsin were offset by the tuition differential GPR-earned. In 2008-09, total payments made to Minnesota exceeded the amount of tuition differentials received such that the net effect on the GPR balance for the tuition reciprocity program was -$2,305,042.

Minnesota-Wisconsin Tuition Reciprocity Agreement -- WTCS

The Minnesota-Wisconsin reciprocity agreement also applies to Wisconsin's technical colleges which have been included in the agreement since 1972-73. Similar to the portion of the agreement that pertains to university and community college students, reciprocity is statewide, meaning residents of either state may attend any technical college in the neighboring state. Unlike university and community college students, however, technical college students pay the resident tuition rate charged at the college they attend. Therefore, a Wisconsin resident attending one of the six Minnesota technical colleges would pay Minnesota resident tuition, which varies by campus and ranges from $144 to $160 per credit in 2010-11. Similarly, a Minnesota resident attending a Wisconsin Technical College System (WTCS) institution in 2010-11 would pay the resident tuition rate of $106 per credit rather than the nonresident rate of $159 per credit. There is no provision for the exchange of funds between the two states to compensate for technical college students participating under the agreement.

Table 3 shows the number of Minnesota residents attending WTCS schools under the agreement in 2009-10. Information on the number of Wisconsin students attending Minnesota institutions is not available. As shown in Table 3, nine of the 16 WTCS districts enrolled a total of 1,966 Minnesota reciprocity students in 2009-10. As one would expect, the WTCS districts that border Minnesota (Chippewa Valley, Western, and Indianhead) enrolled the vast majority of the Minnesota students enrolled under the agreement. Fox Valley, which offers a special training program through a federal criminal justice grant, and Madison were the only other WTCS districts to enroll a significant number of Minnesota residents. Many of the individuals enrolled under the agreement attend on a

Table 3: Minnesota Students Attending WTCS Schools in 2009-10

District*	Headcount	% of Total	FTEs	% of Total
Chippewa	300	15.3%	124.20	22.5%
Fox Valley	156	7.9	5.47	1.0
Indianhead	470	23.9	91.68	16.6
Lakeshore	5	0.3	0.28	0.1
Madison	88	4.5	38.66	7.0
Mid-State	4	0.2	0.57	0.1
Milwaukee	4	0.2	0.80	0.1
Southwest	17	0.9	3.38	0.6
Western	922	46.9	286.42	51.9
Total	1,966	100.0%	551.46	100.0%

*Only those districts that enrolled students under the agreement are shown.

part-time basis, as indicated by the much lower full-time equivalent (FTE) enrollment of 551.46 students.

Reciprocity Agreements with Other States

Under s. 39.42 of the statutes, HEAB, with the approval of the Joint Committee on Finance, or the governing boards of any publicly-supported, post-secondary institution, with the approval of HEAB and the Joint Committee on Finance, may enter into reciprocity agreements with appropriate state educational institutions in other states. The statutes specify that these agreements, which include remission of nonresident tuition for designated categories of students, "shall have as their purpose the mutual improvement of educational advantages for residents of this state and such other states or institutions of other states with which agreements are made." Under this authority, the state has entered into education reciprocity agreements with community and technical colleges in Michigan, Illinois, and Iowa.

University of Wisconsin System

Other than the Minnesota agreement, the UW System participates in only one other tuition reciprocity agreement. This agreement, which was established in 1967, is between UW-Marinette, a UW Colleges campus, and two community colleges in Michigan, Gogebic Community College in Iron Mountain and Bay De Noc Community College in Escanaba. This agreement applies only to those individuals living in Menominee County in Michigan and in Marinette and Iron Counties in Wisconsin. Under the agreement, a resident of Menominee County, Michigan, enrolled for credit at UW-Marinette is charged Wisconsin resident tuition. Similarly, residents of Iron County and Marinette County may enroll at Gogebic Community College and Bay De Noc Community College, respectively, and pay the Michigan out-of-district resident tuition rate. In 2010-11, tuition rates for Wisconsin residents are $154 per contact hour (the equivalent of one credit) at Bay de Noc and $116 per credit hour at Gogebic. For admissions purposes, students are treated as residents of the state in which they are enrolled. The agreement provides for automatic annual renewal unless either state provides written notice terminating the agreement. Such notice must be given at least 12 months prior to the academic year for which the agreement would be terminated. In 2009-10, 85 Michigan reciprocity students enrolled at UW-Marinette.

Wisconsin Technical College System

In addition to the Minnesota agreement, the Wisconsin Technical College System currently has reciprocity agreements with institutions in Michigan, Illinois, and Iowa. Unlike the Minnesota agreement, these agreements are between individual technical college districts in each state and apply only to residents of those districts.

The agreement with Michigan, which was first established in 1981, involves three Wisconsin technical college districts, Nicolet, Indianhead, and Northeast, and two community colleges in Michigan, Bay de Noc and Gogebic. Under the agreement, Michigan residents attending any of the three Wisconsin technical colleges pay Wisconsin's resident tuition rate plus a $5/credit surcharge and Wisconsin students attending the Michigan colleges pay the Michigan out-of-district resident tuition rate. In addition, the agreement provides that a resident of one of the states whose employer is located in the other state and whose employer pays his or her tuition, is considered a resident of the other state for tuition purposes. The agreement is renewed automatically each year and does not specify particular programs in which students may enroll. In 2009-10, 943 Michigan resident students (252.25 FTE) attended Northeast Technical College. In addition, three Michigan resident students (1.13 FTE) who were enrolled in a program shared by Northeast and Fox Valley Technical Colleges attended Fox Valley Technical College under the agreement.

Three WTCS districts have reciprocity agreements with colleges in Illinois. Gateway Technical College has agreements with the College of Lake

County, McHenry County College and Rock Valley College. Blackhawk and Chippewa Valley also have agreements with Rock Valley. Under the current agreements, participating students from both states are charged Wisconsin resident tuition. While priority for admission is given to residents of the state in which the college is located, after their first semester, students enrolled under the agreement are given the same priority as residents. However, no state resident may be displaced due to either agreement. During the 2009-10 academic year, 51 Illinois students (24.21 FTE) attended a technical college in Wisconsin, with 31 at Blackhawk and 20 at Gateway.

In addition, the Southwest Technical College in Wisconsin has an agreement with Northeast Iowa Community College, which has campuses in Calmar and Peosta, Iowa. Under the agreement with Iowa, students are charged the resident tuition rate for the institution in which they are enrolled. Therefore, in 2010-11, Wisconsin residents who enroll in Northeast Iowa Community College pay the resident tuition of $137 per credit while Iowa residents enrolled in Southwest Technical College pay $106 per credit. As under the agreements with Illinois institutions, priority for initial admission is given to state residents and participating students are treated as residents for admission purposes after their first semester. In 2009-10, eight Iowa resident students (7.07 FTE) attended a Wisconsin technical college with six enrolled at Southwest Technical and two enrolled at Western Technical.

Individual Income Tax Reciprocity

Under state individual income tax provisions, income may be taxed on the basis of where it is earned or on the basis of the taxpayer's legal residence. Wisconsin, like most other states with an individual income tax, provides a credit for taxes paid to another state while the taxpayer was a Wisconsin resident in order to prevent double taxation of the same income. In addition, reciprocity agreements may be entered into between two states to reduce the filing requirements of persons who live in one state and work in another state. Under such agreements, the taxpayer is only required to file a return and pay taxes on income from personal services in the state of legal residence. While "personal services income" is defined specifically for each agreement, the term generally includes salaries, wages, commissions, and fees earned by an employee, but does not include other types of income such as gains on the sale of property, rental income, and lottery winnings. Reciprocity applies only to personal service income.

Wisconsin currently has income tax reciprocity agreements with four states: Illinois, Indiana, Kentucky, and Michigan. In addition, Wisconsin had an agreement with Minnesota for tax years 1968 through 2009. Based on the four existing tax reciprocity agreements, Wisconsin does not tax the income from personal services earned in Wisconsin by residents of the four states and instead collects taxes on such income earned in these states by Wisconsin residents. Likewise, the four other states do not impose their income tax on the income from personal services of Wisconsin residents and instead tax such income earned in Wisconsin by their residents. As a result, Wisconsin foregoes tax revenue from personal service income of residents of reciprocity states who work here and the reciprocity states forego such tax revenue from Wisconsin residents who work there.

The reciprocity agreement with Illinois requires a compensation payment when the net foregone tax revenues of one state exceed those of the other state. The previous agreement with Minnesota contained a similar provision. Under these agreements, the compensation payments made thus far have been from Wisconsin to the other state. The other three agreements do not include a provision requiring compensation payments.

Effects of Reciprocity on Individual Taxpayers

The primary benefit of the reciprocity agreements is that border-crossing taxpayers are required to file a return and pay income taxes only in their state of residence. Without reciprocity, such taxpayers would have the additional inconvenience and record-keeping requirements of filing a return in two states. For Wisconsin residents who work in states that tend to have lower income tax liabilities than Wisconsin's, reciprocity also eliminates the need for state residents to make estimated tax payments to Wisconsin. In certain cases, however, reciprocity may also reduce the total income tax liability of border-crossers. This may occur because of differences in tax laws or because income earned in one state is offset by losses incurred in the other state.

Tax Law Differences

Reciprocity will result in decreased taxes whenever an individual's tax liability is lower in the taxpayer's state of residence than it would be in the state of employment. For example, consider a single taxpayer who lives in Wisconsin and works in a reciprocity state, earning $50,000 in wages (this individual has no other sources of income). It is also assumed that this taxpayer pays $650 of monthly rent and claims the standard deduction for federal tax purposes. In tax year 2010, such an individual would have had a net tax liability of $2,472 if the income were taxed to Wisconsin. In addition, assume that this income would be subject to a tax of $2,600 if the income were taxed to the state where the wages were earned. With reciprocity, this taxpayer would pay $2,472 to Wisconsin and have no tax liability in the state where the income was earned. Without reciprocity, however, this taxpayer would pay $2,600 to the state of employment and have no Wisconsin tax liability because the lower Wisconsin tax would be completely offset by the credit for taxes paid to other states. In this case, the individual's total state tax liability is reduced by $128 ($2,600 minus $2,472) with reciprocity.

The total tax liability would be the same with or without reciprocity in the case of a taxpayer who lives in Wisconsin and works in a state where they would have a lower tax liability. The same example as noted above could be used, except that the Wisconsin resident works in a state where a liability of $2,000 is incurred. With reciprocity, $2,472 would be paid to Wisconsin and no taxes would be paid to the state of employment. In the absence of reciprocity, $2,000 would be paid to the state where the wages were earned and $472 would be paid to Wisconsin ($2,472 Wisconsin gross tax minus a $2,000 credit for taxes paid to other states) for total state taxes of $2,472.

Offsetting Losses

The tax reduction outlined above was due to differences in the income tax laws between Wisconsin and other states. However, even if the tax laws of the two states were identical, income tax reductions could occur for certain taxpayers under reciprocity. As an example, assume that a Wisconsin resident has wage income of $50,000 earned in another state and a $10,000 farm or business loss in Wisconsin. For simplicity, assume that this taxpayer would be subject to an effective tax rate of 5% on income earned in either state.

With reciprocity, after deducting the $10,000 loss, this individual would have a Wisconsin tax liability of $2,000 [($50,000 - $10,000) x 5%]. Without reciprocity, this taxpayer would pay a tax of $2,500 to the other state on the entire $50,000 earned in that state and no taxes would be paid to Wisconsin. Because the Wisconsin loss would not be considered in determining taxable income in the other state and assuming the credit for taxes paid in other states is not refundable, no offsetting tax reduction for the Wisconsin loss would be allowed. Thus, this hypothetical taxpayer receives a reduction of $500 under reciprocity even though the tax provisions of the other state and Wisconsin are assumed to be identical.

Reciprocity Payment Agreement With Minnesota

The Minnesota-Wisconsin reciprocity agreement had been in effect since 1968. On September 18, 2009, Minnesota Governor Tim Pawlenty informed Wisconsin Governor Jim Doyle that the Minnesota Commissioner of Revenue was exercising his authority to discontinue the two states' income tax reciprocity agreement as of tax year 2010. Minnesota state law authorizes the Minnesota Commissioner of Revenue to cancel the agreement when "it is deemed to be in the best interests of the people of this state."

Part of the agreement is specified in the two states' statutes, with the remainder detailed in agreements entered into between the two Departments of Revenue (as authorized in the statutes). Although Minnesota has cancelled the agreement, the Wisconsin statutes authorizing the agreement have not been repealed. Therefore, a subsequent agreement between the two states that conforms to Wisconsin's current law provisions could be implemented without further legislative involvement. The following section provides information about Wisconsin's statutory requirements, details of the reciprocity agreement prior to its cancellation, and information on historical payments by Wisconsin to Minnesota.

Wisconsin Law

Wisconsin's Minnesota reciprocity statute specifies that a compensation payment is made when net foregone tax revenues of one state exceed those of the other state. The statute also specifies that the data used to compute the amount of each state's foregone tax revenue is to be determined by the respective Departments of Revenue on or before November 1 of the year following the close of the previous calendar year. The resulting compensation payment amount must be determined jointly by each state. If an agreement cannot be reached, a three-person board of arbitration is appointed to resolve the difference. The reciprocity statute requires interest to be paid on any delinquent compensation payments. In addition, the Secretary of Revenue is authorized to enter into agreements with the State of Minnesota specifying the reciprocity payment due date, conditions constituting delinquency, interest rates, and the method of computing interest due on delinquent payments.

Effective with tax year 2001, the statutes also provide that Wisconsin must pay Minnesota interest on the annual compensation payment (as opposed to interest on delinquent payments, referred to above). Wisconsin's law specifies that interest is to be calculated according to the Laws of Minnesota 2002 Chapter 377, or at another rate agreed to by the two states. This modification was adopted as part of 2001 Wisconsin Act 109 in response to a Minnesota law change (Laws of Minnesota 2002 Chapter 377) that required the interest payment.

The following sections briefly describe the Minnesota-Wisconsin income tax reciprocity agreement at the time of its cancellation.

Agreement at Time of Cancellation

Term of Agreement. The agreement contained no expiration date and was to continue subject to statutory modification. The agreement could be revised at any time upon mutual agreement of both states. Thus, under these provisions, the income tax reciprocity agreement was open-ended and could be unilaterally terminated by either state through legislative repeal. While the Minnesota statutes authorized the Commissioner of Revenue to cancel the agreement, the Wisconsin statutes do not convey similar authority to its Secretary of the Department of Revenue (DOR).

Calculation of Payments. After a prolonged controversy over the appropriate data and methodology to estimate foregone taxes, a consultant from the Institute of Social Research (ISR) of the University of Michigan was commissioned to prepare a study on the compensation payable under reciprocity for tax years 1973 through 1977. In addition to estimating the amount of foregone taxes for these years, the ISR study made recommendations regarding the methodology to be used in calculating future compensation payments.

The agreement formally adopted the ISR method of calculating the payments. The calculation used benchmark figures regarding the proportion of border-crossers and income taxes foregone, with adjustments to reflect total income tax collections in each state and population trends in border counties. At the time of the cancellation, payments were based on a benchmark study of 1995 income tax returns.

In addition to being the basis of payments for tax year 1997 and thereafter, the 1995 study also resulted in adjustments to the three prior years (1992, 1993, and 1994) to reflect the new data (although adjusting payments could not exceed 10% of the original payment). Specifically, the payment made in December, 1998, was reduced by approximately $1.2 million because the study found that Wisconsin had paid approximately $1.2 million more for tax years 1992 through 1996 than the amounts calculated using the new benchmark.

Calculation of Interest. The agreement was modified in September, 2002, to incorporate the interest provisions authorized in the Minnesota statutes. Under the agreement, all annual payments and adjusting payments were to accrue simple interest from July 1 of the applicable tax year through the date of the payment. The agreement clarified that the interest was to be paid on the same day as the annual payment. The agreement also included the references to each state's statutes detailing the rate of interest to be used. Under statutes of the two states, this rate was the rate Minnesota charges for delinquent tax payments. The rate is determined annually, based on the adjusted prime rate charged by banks during the six-month period ending September 30 of the previous year.

Administrative Provisions. The agreement required payments to be made on December 1, or 30 days after data becomes available for the prior tax year, whichever is later. A method to calculate interest due on delinquent and adjusting payments was also included as part of the agreement. Finally, upon the agreement of both states, a third party could be consulted prior to the use of a board of arbitration in the event of an impasse.

Historical Compensation Payments

Table 4 shows the estimated taxes foregone by Wisconsin and Minnesota, the difference in foregone taxes, and the amount paid by Wisconsin for net Minnesota taxes foregone since 2000. In addition, Table 4 shows the interest payment required under Act 109, starting with tax year 2001, and the total payment including interest. In most years, the amount paid by Wisconsin does not equal the difference in foregone revenues. This occurs because adjusting payments are made for prior years, subject to the 10% limit.

As Table 4 indicates, the reciprocity compensation payment from Wisconsin to Minnesota (excluding the required interest payment, starting with 2001) has increased from $47.9 million for tax year 2000 to $55.8 million for tax year 2009. After peaking for tax year 2007, payments decreased for tax years 2008 and 2009, reflecting the impact of the economic downturn. Otherwise, the trend has been for the payment to increase over time, along with increases in the number of border crossers and in total tax collections. The periodic decreases are generally related to adjustments for prior years and changes in the tax laws of the two states.

As shown in Table 4, the initial interest payment by Wisconsin decreased from $4.8 million for tax year 2001 to a low of $2.9 million for tax year 2003. It rose in every subsequent year until reaching $7.7 million for tax year 2007, but fell to $5.3 million for tax year 2008. The interest payment is a result of the interaction between the net taxes foregone by Minnesota and the applicable interest rate, and may go up or down depending on the combined effect of these two factors.

For tax year 2009, Wisconsin did not make a payment by December 1, 2010. Under the two states' reciprocity agreement, an interest charge of almost $4,600 per day is imposed on the unpaid amount, based on Minnesota's statutory interest rate on unpaid taxes (3% for 2010 and 2011). Budget documents submitted by the Doyle administration indicate that the final payment to Minnesota will be made in 2011-12. However, the timing of the payment will be determined by the Walker administration and / or the Legislature.

Table 4: Compensation Payments Under Minnesota-Wisconsin Income Tax Reciprocity

Tax Year	Taxes Foregone by Minnesota*	Taxes Foregone by Wisconsin*	Difference	Tax Amount Paid by Wisconsin*	Interest Paid by Wisconsin	Amount Paid by Wisconsin*	Payment Date
2000	$64,757,000	$16,856,000	$47,901,000	$47,899,000	$0	$47,899,000	Dec., 2001
2001	60,496,000	16,451,000	44,045,000	44,210,000	4,800,000	49,010,000	Dec., 2002
2002	59,841,000	16,663,000	43,178,000	42,737,000	3,505,000	46,242,000	Dec., 2003
2003	64,342,000	17,410,000	46,932,000	46,944,000	2,906,000	49,850,000	Dec., 2004
2004	72,226,000	18,465,000	53,761,000	53,748,000	3,054,000	56,802,000	Dec., 2005
2005	79,077,000	20,066,000	59,011,000	59,038,000	4,443,000	63,481,000	Dec., 2006
2006	83,963,000	21,476,000	62,487,000	62,537,000	6,513,000	69,050,000	Dec., 2007
2007	90,043,000	21,794,000	68,249,000	68,138,000	7,742,000	75,880,000	Dec., 2008
2008	81,488,000	20,189,000	61,299,000	61,603,000	5,329,000	66,932,000	Dec., 2009
2009**	75,809,000	19,782,000	56,027,000	55,772,000	2,925,000	58,697,000	See note.

*The taxes foregone are shown as estimated when the payment was made. The tax amount paid is based on these estimates and also includes adjustments for prior years.

** Payment not made on December 1, 2010 and will accumulate an interest charge of $4,584 per day, until paid.

Reciprocity Payment Agreement With Illinois

Wisconsin has had an income tax reciprocity agreement with Illinois since 1973. A payment provision that applies to Illinois was enacted in 1997 Wisconsin Act 63 on April 1, 1998. This payment requirement is similar to the Minnesota provision, with the following exceptions: (a) the amount of foregone tax revenue is computed on or before December 1 of the year following the close of the previous calendar year instead of November 1; and (b) with the exception of interest associated with a delinquent payment, there is no interest due to Illinois with the compensation payment. Act 63 authorized the Secretary of DOR to enter into agreements with the State of Illinois specifying the reciprocity payment due date, conditions constituting delinquency, interest rates, and the method of computing interest due on delinquent payments.

The Secretary entered into a reciprocity payment agreement with the Director of the Illinois Revenue Department in 1998. The agreement provided for a benchmark study of 1998 tax returns in 2000 and 2001, using the methodology established in the University of Michigan's ISR study. The agreement's provisions related to the estimation of taxes foregone, payment amounts, and adjusting payments also use the ISR study's methods and procedures. In addition, the agreement provides for data verification and reporting, the computation of interest on delinquent payments, impasse resolution, and making modifications to the agreement.

The payment provision of Act 63 was adopted because Illinois officials stated that reciprocity with Wisconsin would be ended unless an agreement for payment was made. At the time Act 63 was adopted, Illinois estimated that the State of Wisconsin was forgoing taxes of $13 million from Illinois residents who work in Wisconsin and that Illinois was forgoing taxes of $24 million from Wisconsin residents who work in Illinois. The difference of $11 million was Illinois' estimate of its annual net revenue loss. The Wisconsin DOR estimated that the difference in foregone taxes could be between $9.5 million and $29.0 million annually. Under Act 63, Wisconsin made a payment to Illinois of $5.5 million in 1998-99 and $8.25 million in 1999-00. These amounts reflected 50% and 75%, respectively, of Illinois' estimated $11 million revenue loss in 1998. Act 63 specified that future payments would be based on the results of the 1998 benchmark study, and were anticipated to begin in 2001-02 (no payment would be made in the 2000-01 fiscal year).

The benchmark study of 1998 tax returns was

Table 5: Compensation Payments Under Illinois-Wisconsin Income Tax Reciprocity

Tax Year	Taxes Foregone by Illinois*	Taxes Foregone by Wisconsin*	Difference	Amount Paid by Wisconsin	Payment Date
2000	$42,652,000	$13,251,000	$29,401,000	$29,401,000	Dec., 2001
2001	44,884,000	12,868,000	32,016,000	32,165,000	Dec., 2002
2002	42,153,000	13,113,000	29,040,000	28,714,000	Dec., 2003
2003	41,695,000	13,719,000	27,976,000	28,042,000	Dec., 2004
2004	46,667,000	14,605,000	32,062,000	31,734,000	Dec., 2005
2005	50,621,000	15,906,000	34,715,000	34,681,000	Dec., 2006
2006	55,275,000	17,142,000	38,133,000	38,036,000	Dec., 2007
2007	59,499,000	17,403,000	42,096,000	42,267,000	Dec., 2008
2008	54,536,000	16,165,000	38,371,000	38,557,000	Dec., 2009
2009	50,438,000	15,753,000	34,685,000	34,975,000	Dec., 2010

* The taxes foregone are shown as estimated when the payment was made.

completed and used for determining taxes foregone by Illinois and Wisconsin, starting with a payment for tax year 2000. These payments, which are shown in Table 5, have ranged from $28.0 million for tax year 2003 to $42.3 million for tax year 2007. The payments have been significantly higher than had been estimated by the Illinois DOR, and have exceeded the high end of the original range estimated by the Wisconsin DOR since tax year 2004. According to the Wisconsin DOR, there are two primary reasons for the payments being at or above the high-end range of the Department's original estimate. First, the original estimate assumed that average income in the two states would be the same. However, the reciprocity study showed that the average income of Illinois residents working in Wisconsin was much lower than the average income of Wisconsin residents working in Illinois. The second reason for the larger payments is that, since 1998, Wisconsin's taxes decreased while Illinois' taxes increased. The net effect of these factors was to increase the payment from Wisconsin to Illinois significantly over the amounts that had been expected when the payment provision was enacted in 1998.

Effect of Income Tax Reciprocity Payment Agreements on State Revenues

The preceding section entitled "Effects of Reciprocity on Individual Taxpayers" explains how some residents of each state receive a tax reduction under reciprocity. As a result, Illinois, Minnesota, and Wisconsin have each experienced a revenue loss under the reciprocity agreements. While the compensation payment is intended to equalize the foregone revenue of each state relative to the other, the total revenue of each state is lower than it would be in the absence of reciprocity. Based on information from the most recent benchmark studies for the agreements, the Wisconsin DOR has estimated that Wisconsin's revenue loss from the agreements is minimal.

Tables 4 and 5 show the estimated taxes foregone by the three states and the payments made by Wisconsin since tax year 2000. The payments to Minnesota and Illinois have been largely offset by collections of taxes from Wisconsin residents who work in the two states. However, the interest payment to Minnesota has involved a cost to Wisconsin to the extent that the rate of interest required for the payment exceeds actual interest earnings to the state of Wisconsin.

The adoption of the interest payment resulted from Minnesota's concern that it was losing money associated with the lag between tax collections for a given tax year and the annual reimbursement from Wisconsin for that year. For example, Wisconsin collected taxes for Wisconsin residents working in Minnesota in 2009 from January, 2009, through the tax filing deadline (in most cases, April 15, 2010). Yet the reimbursement to Minnesota was not due until December, 2010, when total collections for 2010 were known. Minnesota officials believe that this annual lag has resulted in a loss of interest the state could otherwise earn if it collected the taxes directly from Wisconsin residents working in Minnesota.

While it may be reasonable for Wisconsin to reimburse Minnesota for this loss of potential interest earnings, Wisconsin has been required to pay more in interest to Minnesota than the corresponding interest Wisconsin earns. Thus, there has been a cost to Wisconsin. For the nine years for which interest has accrued, the net interest cost to Wisconsin is estimated to have been approximately $1 to $4 million annually.

The reciprocity payment agreement with Illinois should not be viewed as an annual loss to the Wisconsin general fund. Ending reciprocity with Illinois would result in lower income tax collections by an amount approximately equal to Wisconsin's payment to Illinois because taxes would not be collected on the wages of Wisconsin residents working in Illinois.

In considering whether the Illinois reciprocity agreement should be continued, it should be noted that Wisconsin would incur significant revenue losses in the first two fiscal years after reciprocity would be ended, due to the delayed compensation payment under the agreements. This would occur because Wisconsin would still be obligated to make payments for prior tax years. In addition, costs associated with processing tax returns are estimated to be significantly lower under reciprocity. If reciprocity were eliminated, DOR would have to process: (a) additional returns from Illinois residents who work in this state; (b) credits to Wisconsin residents for taxes paid to Illinois; and (c) estimated payments from Wisconsin residents who work in Illinois.