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RE: Testimony on SB 374

TO: Members of the Senate Committee on Universities and Revenue

FROM: Senator Rob Stafsholt

Thank you Chairman Rob Hutton and members of the Senate Committee on Universities and Revenue for hearing Senate Bill 374.

Under standard law, income can be taxed on the basis of where an individual lives and also works. For residents who live in one state but work in another, a common situation for residents of the 10th Senate District, filing taxes for both states can be complicated and burdensome. However, states can enter into tax reciprocity agreements with other states, where taxpayers can choose to only file their income taxes in the state they reside in.

Wisconsin currently has tax reciprocity agreements with four states: Iowa, Illinois, Michigan, and Kentucky. Beginning in 1968, Wisconsin did have income tax reciprocity with Minnesota, but the agreement fell apart in 2009 after there was a disagreement on the amount of payment Minnesota received from Wisconsin.

This bill starts the process of the two neighboring states once again having income tax reciprocity. SB 374 requires the Department of Revenue (DOR) to conduct a study with Minnesota on the effects of reinstating an income tax reciprocity agreement between the two states. The study will be using information from each state's tax years for 2020 and 2021. The methodology of the study must use 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.

Once the study is completed, it is then submitted to the Governor and the Legislature. Once completed, the DOR Secretary can then use the study to negotiate an income tax reciprocity agreement with Minnesota. The Secretary may specify the reciprocity payment due date, conditions constituting delinquency, interest rates, and the method of computing interest due on any delinquent amounts.

If a preliminary agreement is made between the two state DOR's, the Governor and Joint Committee on Finance must approve it. The agreement shall contain no expiration date and must be subject to statutory modification. The agreement cannot be revised unless approved by the Joint Committee on Finance.

To qualify for income tax reciprocity, all of the following must be true:

- You are a resident of one of the two states, but works in the other.
- You receive personal service income from the reciprocity state.
- An individual is considered a resident if they live there for more than 183 days during the taxable year.
- You return to your home state at least once a month

Thank you Chairman Hutton and committee members for hearing my testimony on SB 374. I would appreciate your support for this bill, and would be happy to take any questions you may have.



SHANNON ZIMMERMAN

STATE REPRESENTATIVE • 30th ASSEMBLY DISTRICT

Senate Bill 374 Senate Committee on Universities and Revenue January 17, 2024

Thank you Chairman Hutton, and committee members for hearing testimony on Senate Bill 374 today. This legislation studies the possibility of restoring income tax reciprocity for Wisconsin and Minnesota taxpayers. Currently, Wisconsin residents who work in Minnesota are required to file income taxes in both states.

This legislation starts the process to fix the income tax reciprocity problem with the State of Minnesota. The absence of tax reciprocity between Wisconsin and Minnesota creates an unnecessary burden for many of taxpayers who have to file income taxes in both states. I have literally thousands of constituents who would benefit from this legislation.

In short, this bill requires that the Wisconsin Department of Revenue (DOR), in conjunction with the Minnesota Department of Revenue, conduct a study on the effects of instituting income tax reciprocity between the two states. Once the study is complete and submitted to the Governor and Legislature, the DOR Secretary could use the information to negotiate an agreement with Minnesota that allows taxpayers who live in one state and work in the other to file income tax returns in their home state only, rather than in both states as they do now.

Thank you again for your time and attention to this proposal and I hope I can count on your support of this measure as we move forward.



Tony Evers
Governor

Peter W. Barca
Secretary of Revenue

**Information Only Written Testimony on Senate Bill 374
January 17, 2024
Peter Barca, Secretary of the Department of Revenue**

Good morning, Chairman Hutton, ranking member Larson and members of the Senate Committee on Universities and Revenue. I would like to thank Senator Stafsholt and Representative Zimmerman for their interest in restoring reciprocity with Minnesota. I appreciate the opportunity to provide written testimony for information only on Senate Bill 374, a bill to direct a study on the effects of reinstating income tax reciprocity between Wisconsin and Minnesota.

As many of you know, working to restore reciprocity with Minnesota has been a top priority of mine since becoming Secretary of the department in 2019. I have had many conversations with my counterparts in Minnesota in attempts to restore reciprocity. Also, Rep. Zimmerman and I have been having ongoing discussions on this issue.

It is important we work together to help citizens fulfill the desire to fill out only one state tax form, and have the states work out the payments among themselves. It is not just a matter of saving time, but also saving money in not having to pay tax preparers for filing two separate forms.

Last year, I visited with MN DOR staff that live in Wisconsin, and one of the very first things they asked about was on our efforts to bring back reciprocity with Minnesota.

Our reciprocity agreements with other states such as Illinois, Indiana, Michigan and Kentucky all work extremely well.

There should be no doubt that I am strong supporter of reinstating reciprocity with Minnesota. I have met multiple times with my last three counterparts in MN to work toward that goal. That said, the effectiveness of this legislation depends on participation from the Minnesota Department of Revenue. Without their input and data, the study would provide only the Wisconsin side of the equation. Additionally, the study would cost the department time and resources, without any guarantee of success. Furthermore, we have had ongoing discussions with the Minnesota Department of Revenue to attempt to agree to the best terms of a study. There is a far greater likelihood of convincing them to move forward if we do not attempt to dictate through legislation, the terms of the study.

While the Department fully supports the sentiment behind SB 374, we have concerns it will be less likely to move our state closer to reciprocity with Minnesota if we attempt to take a one-sided approach to setting the terms of the engagement. If my colleagues would like to reestablish reciprocity with Minnesota, I would encourage you to join me in the efforts we've undertaken to build relationships with our counterparts in Minnesota and engage their legislature to jointly advocate the great value to taxpayers of both states. Thank you for your consideration, as always, feel free to reach out with any questions.