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education and income tax reciprocity agreements

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Education and Income Tax Reciprocity Agreements

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, and fishing licenses along the Mississippi River.

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 Minnesota State Colleges and Universities Board of Trustees and 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 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.

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 calculated cost of educating its students attending schools in the other state and the total amount of tuition paid by 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.

1997 and 1998 Modifications

Until 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. As Minnesota institutions have historically charged higher resident tuition than Wisconsin institutions, Wisconsin resident students attending Minnesota institutions often paid less in tuition than Minnesota students attending those same institutions. This was particularly pronounced at the UM-Twin Cities campus where Wisconsin resident undergraduate students were charged almost $1,300 less than Minnesota resident undergraduates and Wisconsin resident law students paid over $2,900 less than Minnesota resident law students.

To address this issue as well as Wisconsin's growing liability under the agreement, 1997 Act 27 modified Wisconsin law such that reciprocity tuition could not exceed the higher of the resident tuition rates charged at comparable institutions in the two states. This allowed the University of Minnesota law school to charge Wisconsin reciprocity students the Minnesota resident rate beginning in 1997-98 and UM-Twin Cities to charge Wisconsin resident undergraduate students a "tuition gap surcharge" beginning in 1998-99. The "tuition gap surcharge" was equal to 25% of the difference between resident tuition rates at UM-Twin Cities and UW-Madison.

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 the 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.

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

2007 Modifications: Creation of the Supplement Program

The agreement was next modified in 2007. The purpose of the changes made in that year was 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 due to Wisconsin reciprocity students. Previously, all payments made by Wisconsin under the agreement had been directed to the state of Minnesota, not to the colleges and universities. To accomplish this, the agreement was modified so that reciprocity students would be charged the higher of the resident tuition rate at the institution attended or at a comparable institution in the students' home state and the "Wisconsin reciprocity supplement program" was established. These changes only applied to students who first enrolled after the 2007-08 academic year.

Under the modified agreement, most Wisconsin students were charged the Minnesota resident tuition rate, which was higher than resident tuition charged by comparable institutions in Wisconsin in most cases. Through the Wisconsin reciprocity supplement program, Wisconsin students who were charged the Minnesota resident tuition rate received a supplement payment equal to the difference between the tuition charged and resident tuition at a comparable UW institution. As a result, most Wisconsin resident students who enrolled in Minnesota institutions beginning in the 2008-09 academic year and thereafter were *charged* the Minnesota resident rate but received a credit on their tuition bill such that they *paid* the Wisconsin resident rate, which is the same amount as they would have paid under the previous agreement.

The Wisconsin reciprocity supplement program was administered by the Minnesota institutions and the supplement was applied directly to the student's tuition bill. HEAB made payments 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 peaked in 2010-11 at $5.5 million. These payments reduced Wisconsin's net obligation at the end of each calendar year on a dollar-for-dollar basis.

Elimination of the Supplement Program

During deliberations on the 2011-13 biennial budget, the Governor proposed the elimination of the supplement program beginning in the 2011-12 academic year. The Joint Finance Committee, which must approve the annual administrative memorandum for the program, instead directed HEAB to renegotiate the administrative memorandum with Minnesota to phase out the supplement program beginning in 2012-13. Under the administrative memorandum approved by the Joint Finance Committee, only students who first enrolled in Minnesota institutions prior to 2012-13 would be eligible for the supplement program. These students could receive supplements through the 2014-15 academic year. Wisconsin students who first enrolled in Minnesota institutions during or after the 2012-13 academic year could not receive the supplement and therefore paid the Minnesota resident tuition rate. The supplement program ended after the 2014-15 academic year. Wisconsin students now pay the higher of the resident tuition at the institution attended or at a comparable UW institution.

The administrative memorandum was also modified to reflect a change in tuition and fee charges at University of Minnesota institutions. Prior to 2011-12, UM institutions had charged a $1,300 "university fee." Because fees are not covered by the reciprocity agreement, Wisconsin students attending UM institutions had been responsible for the payment of this fee. In 2011-12, the UM Board of Regents eliminated the "university fee" and subsequently increased tuition by $1,300. This increased the difference in the resident tuition at UM institutions and comparable UW institutions by $1,300 and would have increased the amount of the supplement for each Wisconsin student enrolled in an UM institution by the same amount. To avoid this increase in the amount of the supplement for Wisconsin students enrolled at UM institutions, language was added to the administrative memorandum to specify that supplements for UM students should be reduced by $1,300 to reflect the portion of tuition charges that were previously assessed as a "university fee." This change also increased the amount of tuition paid by Minnesota students enrolled at UW-Madison and UW-Milwaukee by $1,300. This led to an increase in the "tuition differential," which is discussed later in this paper.

For the 2020-21 school year, due to the COVID-19 epidemic, the 2020-21 agreement provides an exception to the requirement that tuition rates remain constant during the academic year for reciprocity purposes. The agreement specifies that rates will differ for Fall, Spring, and Summer terms. Reciprocity calculations would be done for each term taking the varying tuition rates into account.

Enrollments

Table 1 shows enrollment by Minnesota reciprocity students in UW institutions and enrollment by Wisconsin reciprocity students in Minnesota institutions for fall, 2018. As one would expect, institutions that are located close to the border between the two states generally have the highest enrollments of reciprocity students. One exception is UW-Madison which, as the system's flagship campus, also attracts a large number of reciprocity students.

Reciprocity Costs and the Calculation of Liability Obligation

Under the current agreement, each state's liability is the difference between the calculated cost of educating its students attending institutions in the other state and the total amount of tuition charged to those students. 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. The agreement sets the

Table 1: Reciprocity Student Enrollment by Institution, Fall 2018*

Madison	2,873	UM-Twin Cities	3,977
River Falls	2,747	Winona State University	1,613
Eau Claire	2,712	UM-Duluth	878
Stout	2,081	Minnesota State University -- Mankato	716
La Crosse	1,353	St. Cloud State University	426
Superior	774	Lake Superior College	181
Milwaukee	286	Minnesota State University -- Moorhead	89
Stevens Point	250	UM-Crookston	65
Platteville	115	Minneapolis Community & Tech College	56
All Other UW Institutions	171	All Other Minnesota Institutions	256
Total	13,362	Total	8,257

* Excludes reciprocity students enrolled in Wisconsin technical colleges.

Table 2: Tuition Reciprocity Costs and Tuition Per Credit -- 2018-19

Category	Cost Per Credit Instructional	Cost Per Credit Reciprocity	Tuition Per Credit Reciprocity Rate	Tuition Per Credit Wisconsin Resident
Undergraduate				
UW-Madison/UM-Twin Cities	$603.70	$386.37	$544.08	$386.39
UW-Milwaukee/UM-Duluth	383.16	245.22	500.67	337.13
Comprehensive Institutions*	342.17	218.99	303.96	262.43
UW Colleges	344.77	220.65	197.93	197.93
Graduate Students				
UW-Madison/UM-Twin Cities	1,659.18	1,061.88	1,066.50	670.47
UW-Milwaukee/UM-Duluth	1,178.17	754.03	1,066.50	649.17
Comprehensive Institutions	645.55	413.15	438.30**	535.76

* Tuition per credit does not include applicable differential tuition charges.
** Rates vary by institution; average of rates shown.

reciprocity cost at 64% of total student costs. Under current practice, only Wisconsin's costs are used to calculate liability because it is assumed that instructional costs are similar in both states. Table 2 shows the per credit instructional cost, reciprocity cost, and the reciprocity tuition rate. The Wisconsin resident tuition rate is shown for comparison.

In previous years, the reciprocity cost per credit exceeded the reciprocity tuition rate for most students. That meant that for each credit taken by a reciprocity student, the student's home state incurred a liability equal to the difference between the reciprocity cost of the credit and the tuition paid by the student (the reciprocity rate). Currently, the reciprocity tuition rate exceeds the reciprocity cost per credit for all students at all institutions. Because the tuition paid by reciprocity students now exceeds the reciprocity cost per credit, credits taken by a reciprocity student generally reduce his or her home state's liability under the program. Beginning in 2010-11, both states have had negative liabilities under the program. This is because the total amount of tuition paid by students attending institutions under the agreement exceeded the reciprocity cost of educating those students. Because Minnesota has had a larger negative liability in each year since 2010-11, Wisconsin has made a payment to Minnesota equal to the difference between the two liabilities.

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 3 shows enrollments, liabilities, the reciprocity payment, and, total supplemental payments (which began in 2008-09) for each academic year from 2009-10 to 2018-19. Payments to Minnesota are made from a general purpose revenue (GPR) sum sufficient appropriation established for this purpose.

Wisconsin reciprocity payments to Minnesota grew from $7.8 million in 2005-06 to a peak of $13.0 million for 2009-10. (The 2009-10 payment is the total of the reciprocity payment and the supplemental payments.) Payments to Minnesota have declined since 2011-12 as the Wisconsin reciprocity supplement program has been phased out. For 2018-19, Wisconsin's payments to Minnesota under the agreement totaled $5.5 million.

Tuition Differential

As shown in Table 2, the amount of tuition paid

Table 3: MN-WI Reciprocity Enrollment and Payment History

Academic Year	Minn. Students Enrolled in WI Number	Net Cost	WI Students Enrolled in Minn. Number	Net Cost	Reciprocity Payment*	Total Supplemental Payment	Total WI Payments to MN	Tuition Differential GPR-Earned	Net Effect on GPR Balance
2009-10	14,152	-$4,065,870	10,301	$4,989,433	$9,056,242	$3,934,725	$12,990,967	$8,683,624	-$4,307,343
2010-11	14,431	-8,237,249	10,181	-1,470,876	6,766,373	5,467,479	12,233,852	8,379,674	-3,854,178
2011-12	14,590	-22,914,157	9,848	-16,784,291	6,129,866	5,132,875	11,262,741	13,586,567	2,323,826
2012-13	14,523	-24,485,969	9,282	-17,705,741	6,780,228	3,027,470	9,807,698	12,557,217	2,749,519
2013-14	14,186	-22,360,549	8,794	-15,914,761	6,407,461	1,854,164	8,261,625	12,240,284	3,978,659
2014-15	14,104	-21,543,685	8,473	-16,401,666	5,142,019	874,486	6,016,505	12,709,955	6,693,450
2015-16	13,837	-27,192,750	8,300	-18,807,149	8,383,173	0	8,383,173	13,455,015	5,071,841
2016-17	13,688	-23,864,092	8,285	-17,563,037	6,301,055	0	6,301,055	13,590,380	7,289,325
2017-18	13,504	-20,989,015	8,296	-15,507,580	5,482,450	0	5,482,450	15,567,480	10,085,030
2018-19	13,362	-13,126,614	8,257	-7,618,205	5,508,410	0	5,508,410	16,074,765	10,566,355

*Payment made by Wisconsin to Minnesota. The reciprocity payment is generally made in December of the following fiscal year.

per credit by Minnesota reciprocity students is generally higher than that paid by Wisconsin resident students. Therefore, UW System institutions collect more tuition revenue from Minnesota reciprocity students than would otherwise be paid by Wisconsin resident students. The University does not retain this additional tuition revenue; instead, this money is 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 3 as "tuition differential GPR-earned." For the 2018-19 academic year, the total amount of these tuition differentials was $16.1 million.

Finally, Table 3 shows the net effect of the agreement on the GPR balance, which is the sum of the reciprocity payment, the supplemental payments, and the tuition differential GPR-earned. For 2009-10 and 2010-11, payments made by Wisconsin to Minnesota exceeded the amount of the tuition differential resulting in the program having a negative effect on the GPR balance. An increase in the tuition paid by Minnesota students attending UW-Madison and UW-Milwaukee in 2011-12 increased the tuition differential in that year and the beginning of the phase-out of the supplemental program reduced payments to Minnesota institutions in 2012-13. As a result, the program has had a positive effect on the GPR balance since 2011-12. For the 2018-19 academic year, the net effect of the agreement on the GPR balance was $10.6 million.

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. Like the portion of the agreement that pertains to university and community college students, reciprocity is statewide and technical college students pay the resident tuition rate charged by the college they attend. Minnesota residents attending Wisconsin Technical College System (WTCS) institutions in 2019-20 paid the resident tuition rate of $136.50 per credit rather than the nonresident rate of $204.75 per credit for associate and technical degree courses and $184.60 per credit instead of the nonresident rate of $276.90 for collegiate transfer programs. Wisconsin residents attending Minnesota's five technical colleges pay Minnesota resident tuition which ranged from $174.47 per credit to $195.43 per credit for courses in 2019-20. However, no Minnesota technical college currently charges a nonresident rate meaning that all nonresident students are charged the same rate as resident students regardless of whether they are covered by a reciprocity agreement. There is no provision for the exchange of funds between the two states to compensate for technical college students participating under the agreement.

Table 4 shows the number of Minnesota residents attending WTCS schools under the agreement in 2019-20. Information on the number of Wisconsin students attending Minnesota institutions is not available. As shown in Table 4, 11 of the 16 WTCS districts enrolled a total of 1,429 Minnesota reciprocity students in 2019-20. As one would expect, the WTCS districts that border Minnesota (Chippewa Valley, Western, and Wisconsin Indianhead) enrolled the majority of the Minnesota students enrolled under the agreement. However, Northeast and Madison also enrolled a significant number of Minnesota reciprocity students. Many of the individuals enrolled under the agreement attend on a part-time basis.

Table 4: Minnesota Students Attending WTCS Schools in 2019-20

District*	Headcount	% of Total
Blackhawk	33	2.3%
Chippewa	286	20.0
Fox Valley	0	0.0
Gateway	3	0.2
Madison	157	11.0
Milwaukee	0	0.0
Northcentral	0	0.0
Northeast	363	25.4
Southwest	26	1.8
Western	512	35.8
WI Indianhead	49	3.5
TOTAL	1,429	100.0

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

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, postsecondary 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 UW-Marinette and six technical colleges have entered into education reciprocity agreements with community and technical colleges in Michigan, Illinois, and Iowa.

University of Wisconsin System

The UW System participates in one tuition reciprocity agreement in addition to the agreement with Minnesota. This agreement, which was established in 1967, is between UW-Green Bay, Marinette Campus, and two community colleges in Michigan, Gogebic Community College in Iron Mountain and Bay College (formerly 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 at UW-Green Bay, Marinette Campus is charged Wisconsin resident tuition. Similarly, residents of Iron County and Marinette County may enroll at Gogebic Community College and Bay College, respectively, and pay the Michigan out-of-district resident tuition rate. In 2020-21, tuition rates for qualifying Wisconsin residents are $231 per contact hour (the equivalent of one credit) at Bay and $180 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 fall, 2020, 82 Michigan reciprocity students enrolled at UW-Green Bay, including 42 at the Marinette Campus and 40 at the Green Bay campus.

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 College and Gogebic. Under the agreement, Michigan residents attending any of the three Wisconsin Technical Colleges pay Wisconsin's resident tuition rate, and Wisconsin residents attending the Michigan colleges pay Michigan's 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 2019-20, 363 Michigan resident students (143.94 FTE) attended Northeast Technical College. In addition, one Michigan resident student (0.2 FTE) attended Wisconsin Indianhead Technical College. No students participated in the shared program between Northeast and Fox Valley Technical Colleges in 2019-20.

Three WTCS districts have reciprocity agreements with colleges in Illinois: Blackhawk Technical College has agreements with Rock Valley College and Highland Community College; Gateway Technical College has agreements with the College of Lake County, McHenry County College, and Rock Valley; and Southwest Technical College has an agreement with Highland Community College. Unlike the agreements with Minnesota and Bay College and Gogebic Community Colleges in Michigan, these agreements only apply to specific programs. Under the current agreements, participating students are charged either resident tuition at the institution attended or Wisconsin resident tuition. While in most cases priority for admission is given to residents of the state in which the college is located, students enrolled under the agreement are given the same priority as resident students after their first semester. However, no state resident may be displaced due to either agreement. During the 2019-20 academic year, 42 Illinois students (18.96 FTE) attended a technical college in Wisconsin, with 33 at Blackhawk, two at Gateway, and seven at Southwest.

In addition, Southwest Technical College has an agreement with Northeast Iowa Community College, which has campuses in Calmar and Peosta, Iowa. Under the agreement, students are charged the resident tuition rate for the institution in which they are enrolled. Therefore, in 2020-21, Wisconsin residents who enroll in Northeast Iowa Community College pay the resident tuition of $176 per credit while Iowa residents enrolled in Southwest Technical College pay $136.50 per credit. As under most of the agreements with Illinois institutions, priority for initial admission is given to state residents and participating students are treated as residents after their first semester. In 2019-20, 10 Iowa resident students (9.67 FTE) attended Southwest Technical college under the agreement.

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. Like most other states with an individual income tax, Wisconsin provides its residents a credit for taxes paid to another state to prevent double taxation of the same income. In addition, states may enter reciprocity agreements to reduce the filing requirements of persons who live in one state and work in another state. Under such agreements, taxpayers are only required to file returns 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 because more Wisconsin residents earned income in those states than those states' residents earned income in Wisconsin. 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 $60,000 in wages (this individual has no other sources of income). It is also assumed that this taxpayer pays $825 of monthly rent, including heat, and claims the standard deduction for federal tax purposes. In tax year 2020, such an individual would have had a net state tax liability of $2,599 if the income were taxed to Wisconsin. In addition, assume that this income would be subject to a tax of $2,800 if the income were taxed to the state where the wages were earned. With reciprocity, this taxpayer would pay $2,599 to Wisconsin and have no tax liability in the state where the income was earned. However, without reciprocity, this taxpayer would pay $2,800 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 $201 ($2,800 minus $2,599) 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 $2,500 is incurred. With reciprocity, $2,599 would be paid to Wisconsin and no taxes would be paid to the state of employment. In the absence of reciprocity, $2,500 would be paid to the state where the wages were earned and $99 would be paid to Wisconsin ($2,599 Wisconsin gross tax minus a $2,500 credit for taxes paid to other states) for total state taxes of $2,599.

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 $60,000 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 $2,500 [($60,000 - $10,000) x 5%]. Without reciprocity, this taxpayer would pay a tax of $3,000 to the other state on the entire $60,000 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 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. Act 63 authorized Wisconsin's Secretary of the Department of Revenue (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.

Wisconsin Law

Wisconsin's Illinois 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 are to be determined by the respective Departments of Revenue on or before December 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.

The DOR Secretary entered into a reciprocity payment agreement with the Director of the Illinois Revenue Department in 1998. The agreement's provisions cover the estimation of taxes foregone, payment amounts, and adjusting payments. 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 following sections briefly describe the Illinois-Wisconsin income tax reciprocity agreement.

Illinois-Wisconsin Agreement

Term of Agreement. The agreement contains no expiration date and continues subject to statutory modification. The agreement can be revised at any time upon mutual agreement of both states. Thus, under these provisions, the income tax reciprocity agreement is open-ended and can be unilaterally terminated by either state through legislative repeal.

Calculation of Payments. The agreement provided for a benchmark study of 1998 tax returns in 2000 and 2001, using the methodology established by a consultant from the Institute of Social Research of the University of Michigan. This methodology mirrors that which was first adopted for use in administering Wisconsin's income tax reciprocity agreement with Minnesota. The methodology uses 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.

Administrative Provisions. The agreement requires payments to be made no later than December 31, of the year following the tax year for which the payment is being made. Methods for adjusting payments and for calculating interest on delinquent payments are also included as part of the agreement. Finally, upon the agreement of both states, a third party can be consulted prior to the use of a board of arbitration in the event of an impasse.

Historical Compensation Payments. 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 completed and used for determining taxes foregone by Illinois and Wisconsin, starting with a payment for tax year 2000. The reciprocity study revealed that the average income of Illinois residents working in Wisconsin was much lower than the average income of Wisconsin residents working in Illinois. As a result, payments for the first four tax years were at the high end of the range estimated by the Wisconsin DOR at the time of the Act 63 enactment. For the next three years, Wisconsin's payments to Illinois increased as the estimated number of Wisconsin residents working in Illinois grew more rapidly than the estimated number of Illinois residents working in Wisconsin. Payment decreases occurred for the two years corresponding to the economic recession (2008 and 2009), but increased for each of the next four years, more than doubling by tax year 2014. During this period, Wisconsin enacted several measures decreasing taxes, while Illinois, which employs a flat tax, enacted a temporary increase in its tax rate, from 3% to 5%, beginning in tax year 2011. That increase expired in tax year 2015, with the rate decreasing to 3.75% and the payment dropping by almost $13.4 million (-17.2%). Effective July 1, 2017, Illinois increased its rate to

4.95%. Wisconsin's payment subsequently increased by $39.0 million (60.3%), from $64.7 million in tax year 2016 to $103.7 million in tax year 2018, the first full year in which Illinois's rate increase was in effect. Table 5 displays payments since the beginning of the payment provision.

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 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.

Table 5 shows the estimated taxes foregone by Illinois and Wisconsin and the payments made by Wisconsin since tax year 2000. The payments to Illinois have been largely offset by collections of taxes from Wisconsin residents who work in Illinois.

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 agreement. 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.

Reciprocity 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." The Wisconsin statutes do not convey similar authority to its DOR Secretary.

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.

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

Tax Year	Taxes Foregone by Illinois*	Taxes Foregone by Wisconsin*	Difference	Amount Paid by Wisconsin**	Payment Date
2000	$42.7	$13.3	$29.4	$29.4	Dec., 2001
2001	44.9	12.9	32.0	32.2	Dec., 2002
2002	42.2	13.1	29.0	28.7	Dec., 2003
2003	41.7	13.7	28.0	28.0	Dec., 2004
2004	46.7	14.6	32.1	31.7	Dec., 2005
2005	50.6	15.9	34.7	34.7	Dec., 2006
2006	55.3	17.1	38.1	38.0	Dec., 2007
2007	59.5	17.4	42.1	42.3	Dec., 2008
2008	54.5	16.2	38.4	38.6	Dec., 2009
2009	50.4	15.8	34.7	35.0	Dec., 2010
2010	66.6	17.0	49.6	50.4	Dec., 2011
2011	92.1	17.8	74.3	74.4	Dec., 2012
2012	99.4	18.7	80.7	80.7	Dec., 2013
2013	99.8	17.6	82.2	82.1	Dec., 2014
2014	96.2	18.2	78.0	77.9	Dec., 2015
2015	83.5	19.1	64.4	64.5	Dec., 2016
2016	84.4	19.7	64.7	64.7	Dec., 2017
2017	114.3	20.7	93.6	93.1	Dec., 2018
2018	125.3	21.7	103.6	103.7	Dec., 2019
2019	120.9	21.1	99.9	99.8	Dec., 2020

* The taxes foregone are shown as estimated when the payment was made.
** Includes adjustments of prior years.