HOUSE RESEARCH
Bill Summary

FILE NUMBER: H.F. 3370 **DATE:** April 19, 2010

Version: With author's delete-everything amendment (H3370DE1)

Authors: Reinert

Subject: Income tax reciprocity benchmark study

Analyst: Nina Manzi, (651) 296-5204
Joel Michael (joel.michael@state.mn.us)

Overview

Directs the Department of Revenue to work with the Wisconsin Department of Revenue to conduct a new individual income tax reciprocity benchmark study. The study would provide the two states with the data needed for entering into a new income tax reciprocity agreement, effective for tax year 2012. Requires periodic reporting to the legislature on the status of the study and the status of negotiations with Wisconsin for reinstating reciprocity.

Section

1 Income tax reciprocity benchmark study.

Subd. 1. Study parameters. Directs the Department of Revenue to work with the Wisconsin Department of Revenue to conduct an income tax reciprocity benchmark study, to provide an estimate of compensation payable from one state to the other if the two states entered into a new income tax reciprocity agreement, effective for tax year 2012. The study would use information from Minnesota and Wisconsin 2010 income tax returns of individuals who are residents of one state and have earnings in the other state. Requires the study to include:

- The number of residents of each state with earnings in the other state;
- The income earned by residents of one state who work in the other state;
- The amount of tax revenue foregone or gained by each state if a reciprocity agreement were implemented in tax year 2012;
- A calculation of compensation payable from the state that gains revenue to the state that foregoes revenue that takes into account the credit for taxes paid to other states;
- A methodology for using the 2010 base year results to project compensation payments for future years.

Subd. 2. Reports. Requires a series of reports from the commissioner to the governor and legislature providing updates on the status of the benchmark study and negotiations with Wisconsin to reinstate reciprocity. Preliminary reports are due July 15, and September 15, 2011, with the final report due March 1, 2012.

Background. Individual income tax reciprocity agreements relieve individuals who live in one state but work in another of the burden of filing tax returns in both states. Minnesota and Wisconsin had a reciprocity agreement in effect for tax years 1968 through 2009. Beginning in 1975, the agreement provided for Wisconsin to make compensatory payments to Minnesota for the amount of income tax revenue foregone as a result of the agreement. Minnesota foregoes revenue because more Wisconsin residents work in Minnesota than vice versa. The calculation of the net revenue loss to Minnesota was re-estimated in 1995. The commissioner of revenue terminated the reciprocity agreement with Wisconsin in September 2009, effective for tax year 2010, after failing to reach an agreement with Wisconsin to accelerate the timing of compensatory payments. At the time there was a 17-month time lag between when Minnesota would have realized tax revenue in the absence of reciprocity, and when Wisconsin made the compensatory payments. While Wisconsin pays interest on the payments, the time lag results in the payments from Wisconsin falling in a later fiscal year than the revenue loss incurred by Minnesota.

Minnesota has reciprocity agreements in effect with Michigan and North Dakota; because there are believed to be relatively small numbers of taxpayers involved the agreements do not require any compensatory payments.