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This bill modifies the income tax reciprocity statute insofar as it relates to Wisconsin.

Under present law, the commissioner of revenue has discretion to decide whether to enter a reciprocity agreement. For an agreement with Wisconsin, the law requires Wisconsin to reimburse Minnesota for its full revenue loss that would result from not taxing Wisconsin residents who work in Minnesota.

The bill makes two major changes in the reciprocity statute relative to Wisconsin:

1. It eliminates the commissioner of revenue's discretion to decide whether to enter a reciprocity agreement, if Wisconsin agrees to reimburse Minnesota for its lost tax revenues, as provided under the formula as modified by the bill.
2. It modifies the formula to:
    a. Take into account the effect of refundable credits paid by Minnesota to Wisconsin residents who work in Minnesota and
    b. Allow Wisconsin to deduct the full cost of the revenue it forgoes by not taxing Minnesota residents (not the lesser portion of that revenue that Minnesota allows to be claimed as a credit against Minnesota tax).

Minnesota terminated the previous reciprocity agreement with Wisconsin in 2010, largely due to an ongoing timing lag between when Wisconsin collected taxes from Minnesota residents and when Wisconsin made the required compensating payment to Minnesota. Wisconsin has since agreed to make the payments in a more timely manner, and the two states have conducted a new benchmark study to determine the number of cross-border workers and amount of taxes they pay. But negotiations between the two states to reinstate reciprocity have stalled on the issue of how to calculate the amount of the revenue loss for which Minnesota is to be compensated. Minnesota has insisted its revenue loss be calculated based on the limitations on Minnesota's credit for taxes paid to other states (i.e., that the credit cannot exceed the Minnesota tax that would have been paid on the income, even if the other state's tax is higher). Because Wisconsin's income taxes are higher than Minnesota's on a group of Minnesota workers, this would compel Wisconsin to realize a revenue loss from reciprocity while holding Minnesota's budget harmless. This would occur, because Minnesota workers would avoid paying the higher Wisconsin taxes and those taxes (absent reciprocity) are not fully offset by the Minnesota credit for taxes paid to another state. Put another way, Wisconsin does not consider that it should finance a tax reduction for Minnesota residents working in Wisconsin under reciprocity. This bill would provide that Minnesota would incur those costs (rather than Wisconsin), since the benefit inures to Minnesota residents.

A now expired 2014 law allowed the commissioner of revenue to agree to $1 million less than the full amount of Minnesota's revenue loss. However, the disputed amount is larger than that. Note that Wisconsin is one of only a few states without a limit on its credit for taxes paid to other states; most other states have limits similar to Minnesota's. As a result, the same issue does not arise for Wisconsin residents working in Minnesota who are subject to higher taxes in Minnesota than they would pay in Wisconsin (e.g., on very high wage workers).