

Superior Days Issues

Departments of: Administration & Revenue

Wisconsin - Minnesota Tax Reciprocity

The citizens of Northwest Wisconsin request:

Wisconsin and Minnesota enter into a new income tax reciprocity agreement.

A great deal of burden will be placed on some 80,000 Wisconsin residents who are employed in Minnesota if this agreement is not renewed. As of January 1, 2011, not only the Minnesota payroll tax is



deducted from resident's paychecks, but also Wisconsin quarterly withholding is due on that same income. Wisconsin residents will not recapture the Minnesota income tax for over one calendar year.



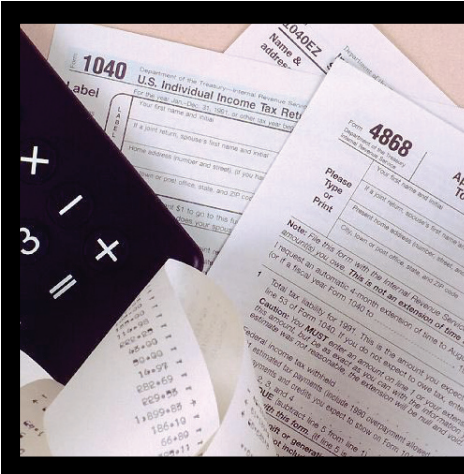
This doubling Wisconsin resident's state tax burden greatly affects those least able to pay. Low and middle income residents must file a number of unfamiliar government forms and increase their cost of filing 2011 returns.

We strongly encourage Wisconsin legislators to contact their Minnesota counterparts and renew this 40-plus year old agreement.

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What is Income Tax Reciprocity?

These agreements allow residents who live in one state and work in another, referred to as "cross-border workers," to file returns and pay taxes on personal service income in the state of residence. Personal service income 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. In the absence of an income tax reciprocity agreement, wages and other personal service income are subject to tax in the state in which income is earned. Without a reciprocity agreement taxpayers would be required to file returns in both the state of residence and the state of employment, because both Minnesota and Wisconsin tax their residents on all of their income, regardless of where it was earned.

When the agreement with Minnesota was signed in 1967 (effective beginning with tax year 1968), the number of taxpayers who lived in one state and worked in the other was much smaller. Throughout the 1970's, the number of taxpayers living in Wisconsin and working in Minnesota increased.

Calculation of Reciprocity Payments

Income tax reciprocity payments are currently based on a 1995 benchmark study of tax year income tax returns. This study provided data about cross-border workers

and income taxes foregone. The benchmark study results have been used since 1998 to calculate the annual income tax reciprocity payment that Wisconsin makes to Minnesota. The benchmark results are applied to a given year and adjusted for changes in: 1) total income tax collections; and 2) the most recent population estimates by county from the U.S. Census Bureau for both states.

Impact of Reciprocity on Taxpayers

Estimates show 79,500 Minnesota and Wisconsin residents live in one state and work in the other and are affected by reciprocity. Of that number, there are about 57,000 Wisconsin residents who work in Minnesota and about 22,500 Minnesota residents who work in Wisconsin. So Wisconsin has more residents than Minnesota who cross the border into the other state for employment.

Without reciprocity, all cross-border workers would be inconvenienced by having to file both Wisconsin and Minnesota income tax returns.

In terms of income tax liability without income tax reciprocity, cross-border workers will pay the greater of the Minnesota or Wisconsin tax. If the Wisconsin tax is less than Minnesota tax, they would pay the same total tax, regardless of reciprocity. Ending reciprocity would make them file two tax returns and pay some tax in both states, but it would not change their total tax.