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"Balancing" the Budget

Survival Coalition has identified a number of budget cuts which it finds unacceptable. We understand that Legislators looking at our positions will wonder how they are supposed to balance the budget if they wish to support our positions. "Balance" is the operative word: we can *balance* the budget by *balancing* spending cuts with increases in revenue.

While "tax increases" have become dirty words, we note that changes to the Earned Income Tax Credit and the Homestead Credit are effectively tax increases on those who are among the poorest of our citizens. If these are legitimate to propose, why not some of the following:

First Do No Harm: Wisconsin can close the budget gap without changing one tax policy; all we have to do is collect all the taxes owed. Incredibly about $1.2 billion in owed taxes are not paid each year (this almost equals the amount of GPR the Governor added to the Medicaid program). In 2010, beefed-up tax collection efforts recovered $41 million in delinquent taxes. And yet, the Governor is proposing cutting funds for this effort. It is estimated that an additional $8 million in delinquent tax collections can be recovered for every $1 million invested in these efforts.[i]

Stop Digging. As the saying goes, when you're in a hole the first thing you should do is stop digging. This seems to get applied only to spending, but the fact is that the budget hole can be made bigger by reducing revenues. One example: in 2009, Wisconsin amended its tax policy to require combined reporting of corporate income and expenses, joining 22 other states that already had this policy. Some policymakers are advocating for a repeal of combined reporting. Combined reporting prevents corporations from setting up a shell company in order to avoid paying income tax. Many large corporations with operations in more than one state are made up of a parent corporation and a number of subsidiary corporations owned by the parent. Re-opening this corporate tax loophole would add roughly $100 million a year to the state's budget hole.

Shared Sacrifice: While lip service is paid to this term, the budget provides no examples of Wisconsin's wealthiest being asked to sacrifice. By increasing the top marginal tax rate from 7.75% to 9% Wisconsin could increase tax collections by $125 million. This would impact single persons with income over $224,000 and married couples with incomes above approximately $300,000. The average increase would be 0.7% of income and some of this would be offset by lower federal taxes.

Leveling the Playing Field: Currently Wisconsin has sales taxes on some items and not on others. Changes in this area can reap significant revenue increases. For instance, taxing non-medical professional services such as legal, architectural, engineering and accounting could generate $267 million. Taxing business services such as computer services, scientific consulting, public relations and security services could add another $300 million.

That's $700 million in new revenue plus whatever you want to gain from delinquent tax collection.

We know that many Legislators feel that tax increases or other "revenue uppers" are unacceptable. But Wisconsin is not a high spending state: state and local spending is right in the middle nationally—25th out of 50. Sales taxes are 3% below national averages. We spent below the U.S. average per capita on public health, police, parks and public welfare.

Budgets are about choices. We understand the concerns about spending, but feel that this budget goes too far in spending cuts while failing to consider the revenue side of the equation. We will not be a wealthy state if our children do not have a good education, if our health care system underperforms, if human services are undermined.

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[i] Survival Coalition is indebted to the Institute for Wisconsin's Future for much of the information in this paper. Their Catalog of Tax Reform Options for Wisconsin, 2008, with updated information yet to be published for 2011 provided most of the factual information in this paper. We also acknowledge the contribution of the Wisconsin Budget Project of the Wisconsin Council on Children and Families for bringing some of this information to our attention. Some of this information can also be gleaned from the State of Wisconsin, Summary of Tax Exemption Devices published in February 2011 by the Wisconsin Department of Administration and Department of Revenue.