



SALES TAX FORECASTING FOR WISCONSIN COUNTIES: PROBLEMS AND POTENTIAL YIELD (2002 UPDATE)¹

At this writing, 55 of Wisconsin's 72 county governments will levy a sales tax in 2001, with Lafayette and Marinette Counties beginning collections this year. (See Table 1 and map.) Any county may impose the sales tax, at a uniform .5% rate, merely by adopting a sales tax ordinance and delivering a certified copy to the state Department of Revenue at least 120 days prior to its effective date. The tax becomes effective on the first day of January, April, July or October. The tax can be repealed by delivery of a certified copy of a repeal ordinance to the Department of Revenue at least 60 days before the effective date of repeal, which for all counties is December 31.

Administration

The county tax is "piggybacked" on the state's own 5.0% sales tax and returned to the county where the sales took place or, in some cases, where the sale item is kept or used (technically known as a "use" tax). The state processes returns, enforces compliance, distributes monthly checks, and retains 1.75% of the tax to defray its costs. Retailers collect and remit the tax to the state, keep track of where sales occur, and keep another 0.5% to help defray their administrative costs. County governments, therefore, eventually receive 97.75% of the .5% tax collected for them. Generally, it takes about three months to process collections and issue a check to the county or its depository. Therefore, a county should expect to receive no more than three-quarters of its total annual yield during the first year the tax is levied — or less, depending on the month the tax becomes effective.

Purpose

State law allows counties to impose the sales tax "only for the purpose of directly reducing the property tax levy...." Apparently, most counties have interpreted this provision to mean that the property tax levy, with a sales tax, may be either lower than it was last year, or lower than it would have been in the current year without the sales tax. A county also is allowed to "retain the amount it receives or it may distribute all or a portion of the amount it receives to the towns, villages, cities and school districts in the county." So far as we know, this provision never has been implemented.

In practice, virtually all counties' sales tax receipts have been treated as just one more source of general revenue, used to offset expenditures and help balance the counties' annual budgets. Therefore, counties normally try to forecast their sales tax yield for next year's budget, just as they anticipate the amounts other revenues will produce in the coming year. Unlike the property tax, however, which yields whatever amount (minus delinquencies) the county board decides to levy², the sales tax yield is very difficult to predict, especially for counties which have never received the tax.

Forecasting

The county sales tax is piggybacked on the state tax, but there is no record of state sales tax collections by county in which the transaction takes place. Furthermore, retail sales tax surveys are outdated and there is no reliable survey of

¹ By Kate Lawton of the UW-Extension Local Government Center, based on an article originally written by Professor Richard Stauber. Data and assistance was provided by the Legislative Fiscal Bureau and staff from the Department of Revenue in the Division of Research and Analysis.

²Counties are subject to a property tax levy rate limit equal to their 1992 tax levy rate or .001, whichever is greater. State law allows increases in the rate limit under certain circumstances. The penalty for increasing property tax levy rates outside of statutory procedures or allowable circumstances is a comparable reduction in state aids.

taxable retail sales by county. (Many retail sales items and services are exempt.) Sales tax forecasting is risky even for a county that has received the tax for a full year or more. The yield is based on future retail sales that depend on the future condition of the economy and on future consumer attitudes and behavior. In addition, even if we could predict exactly how much the yield will change next year for the state as a whole, receipts do not change at a uniform annual rate for all counties, and rates of change for some individual counties also have differed significantly from one year to the next.

Finally, there are several cash flow or accounting features which complicate the forecast: (1) depending on their gross receipts, retailers may report their sales tax collections either on a monthly, quarterly, or annual basis; (2) the state's budget and its sales tax collections are on a fiscal year basis – July through June – while the counties' budgets and sales tax receipts are on a calendar year basis – January through December. For example, most of the counties' piggyback tax on the current (fiscal 2001-02) state sales tax forecasted for this year, will be distributed to the counties two or three months after it is collected. This means a portion could be received in the last three or four months of calendar 2001, and the rest could be received in the first eight or nine months of calendar 2002.

2001 and 2002 Estimated Tax Yields

County officials, therefore, should use the potential 2001 and 2002 sales tax yield amounts shown in the tables with great caution. They are not projections or predictions, but only starting points which local officials should modify according to their own knowledge of their county's economy and its changing local conditions. For example, if a large retailer in a county has a substantial portion of mail order sales, only the sales to residents of that county are subject to

the county's sales tax. With mail order sales, the county where the customer is located imposes the tax and not the county where the retailer is located. For example, if I purchase clothing by catalog from Land's End, then I will pay the Dane County, not the Iowa County sales tax. The same holds true for large items, such as cars and other registered vehicles, that are purchased in one county and delivered or registered in another county.

To estimate the 2001 tax yields for counties with some sales tax history, as shown in Table 1, we added county sales tax distributions through May of 2001 to the 2000 modified June through December distributions. To estimate the 2002 tax yields, for counties with some sales tax history, we have averaged the state's sales tax growth estimates for the 2001-2002 fiscal year (3.45%) and 2002-2003 fiscal year (5.9%), modified it, and merely added the result – a uniform and more conservative 2.5% — to their estimated 2001 receipts, although we know all counties do not grow at a uniform rate, and some actually may experience a decline in receipts.

Table 2 lists the estimated sales tax yield for counties that currently do not have the county sales tax. The 2002 yield potential is based on each county's percentage of total retail sales according the Sales and Marketing Management Survey of 1999 sales. The percentage of county sales is used to allocate the estimated \$368 million that would be collected in 2002 if all 72 counties levied the sales tax.

**TABLE 1
ESTIMATED SALES TAX YIELD POTENTIAL FOR 2000 AND 2001**

County	2001⁽¹⁾	2002	County	2001	2002
Adams	\$823,989	\$844,589	Marinette ⁽³⁾	\$136,626	1,530,210
Ashland	933,011	956,337	Marquette	805,141	825,270
Barron	2,825,978	2,896,628	Milwaukee	57,191,805	58,621,600
Bayfield	690,826	708,097	Monroe	1,981,516	2,031,054
Buffalo	486,925	499,098	Oconto	1,365,491	1,399,628
Burnett	676,618	693,533	Oneida	3,021,684	3,097,227
Chippewa	3,136,933	3,215,356	Ozaukee	5,388,747	5,523,466
Columbia	2,856,575	2,927,989	Pepin	319,724	327,717
Crawford	1,144,535	1,173,148	Pierce	1,227,922	1,258,620
Dane	35,131,370	36,009,655	Polk	1,778,141	1,822,595
Dodge	3,993,361	4,093,195	Portage	4,075,405	4,177,290
Door	2,713,247	2,781,078	Price	769,319	788,552
Douglas	2,423,523	2,484,111	Richland	841,614	862,655
Dunn	1,877,214	1,924,145	Rusk	663,329	679,912
Eau Claire	6,911,929	7,084,727	St. Croix	3,955,079	4,053,956
Forest	332,247	340,554	Sauk	4,907,149	5,029,828
Green Lake	961,651	985,692	Sawyer	1,233,575	1,264,414
Iowa	1,217,790	1,248,234	Shawano	1,763,859	1,807,956
Iron	350,342	359,100	Taylor	841,917	862,965
Jackson	888,674	910,891	Trempealeau	1,109,166	1,136,896
Jefferson	4,043,882	4,144,979	Vernon	984,511	1,009,124
Juneau	1,181,948	1,211,497	Vilas	1,736,602	1,780,017
Kenosha	7,965,161	8,164,290	Walworth	5,829,828	5,975,574
LaCrosse	8,251,143	8,457,422	Washburn	861,461	882,997
Lafayette ^(2*)	218,656	388,722	Washington	6,589,134	6,753,862
Langlade	1,135,228	1,163,609	Waupaca	2,652,896	2,719,218
Lincoln	1,427,058	1,462,735	Waushara	1,007,225	1,032,406
Marathon	8,775,523	8,994,911	TOTAL	\$215,084,634	\$223,379,330

⁽¹⁾Estimates assume that county sales taxes received from June (modified) to December of 2000 will be the same for the July-December period in 2001.

⁽²⁾Lafayette County adopted the county sales tax effective on April 1, 2001. Estimates assume 45% of collections in 2001 and 80% of collections in 2002. The estimated sales tax yield used is \$485,903.

⁽³⁾Marinette County adopted the county sales tax effective on October 1, 2002. Estimates assume 6.25% of collections in 2001 and 70% of collections in 2002. The estimated sales tax yield that is used is \$2,186,014.

TABLE 2
ESTIMATED 2002 COUNTY SALES TAX YIELD POTENTIAL
(For Counties Without a Sales Tax) ⁽¹⁾

County	Est. 2002 Yield	County	Est. 2002 Yield
Brown	\$17,852,766	Menominee	\$115,709
Calumet	1,546,398	Outagamie	14,128,683
Clark	1,431,599	Racine	11,420,078
Florence	126,941	Rock	11,793,478
Fond du Lac	6,019,846	Sheboygan	6,322,386
Grant	2,659,085	Waukesha	29,254,477
Green	4,210,559	Winnebago	10,844,034
Kewaunee	953,179	Wood	<u>6,740,176</u>
Manitowoc	3,853,930	TOTAL	\$129,273,322

⁽¹⁾ These counties do not have a sales tax in effect in 2001 nor are there any pending referenda in these counties for a county sales tax. Their 2002 yield potential is based on each county's percentage of total retail sales according to the *Sales and Marketing Management* survey of 1998 sales, assuming that 72 counties would collect \$368 million if all levied the tax in 2002.