SALES TAX FORECASTING FOR WISCONSIN COUNTIES: PROBLEMS AND POTENTIAL YIELD (2004 UPDATE)[1]

At this writing, 57 of Wisconsin's 72 county governments will levy a sales tax in 2003, with Green County 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 The tax can be repealed by delivery of a certified copy of a repeal ordinance to the Department of Revenue at least 60 days before the effective date of repeal, which for all counties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 levy[2], 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 taxable retail sales by county. Many retail sales items and services are exempt. Sales tax forecast-

[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 Policy.

[2]Counties 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.

ing is risky even for a county that has received the tax for a full year or more. This yield is based 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 two cash flow or accounting features which complicate the forecast. First, depending on their gross receipts, retailers may report their sales tax collections either on a monthly, quarterly, or annual basis. Second, 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.

2003 and 2004 Estimated Tax Yields

County officials, therefore, should use the potential 2003 and 2004 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 2003 tax yields for counties with some sales tax history, as shown in Table 1, we added county sales tax distributions through May of 2003 to the 2002 modified June through December distributions. To estimate the 2004 tax yields, for counties with some sales tax history, we have averaged the state's sales tax growth estimates for the 2003–2004 fiscal year (4.0%) and 2004-2005 fiscal year (4.9%), modified it, and merely added the result – a uniform and more conservative 1.5% -- to their estimated 2003 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 2004 yield potential is based on each county's percentage of total retail sales according to the Sales and Marketing Management Survey of 2000 sales. The percentage of county sales is used to allocate the estimated $384 million that would be collected in 2004 if all 72 counties levied the sales tax.

TABLE 1
ESTIMATED SALES TAX YIELD POTENTIAL FOR 2003 AND 2004

County	2003[(1)]	2004	County	2003	2004
Adams	872,121	885,203	Marathon	9,723,815	9,869,672
Ashland	962,531	976,969	Marinette	2,361,158	2,396,576
Barron	2,994,001	3,038,911	Marquette	698,640	709,120
Bayfield	784,521	796,289	Milwaukee	58,160,022	59,032,422
Buffalo	512,148	519,831	Monroe	2,115,458	2,147,190
Burnett	767,760	779,277	Oconto	1,424,270	1,445,634
Chippewa	3,152,756	3,200,048	Oneida	3,332,162	3,382,145
Columbia	3,005,243	3,050,323	Ozaukee	5,571,242	5,654,811
Crawford	1,225,571	1,243,955	Pepin	347,496	352,709
Dane	36,988,907	37,543,741	Pierce	1,292,864	1,312,258
Dodge	3,977,454	4,037,116	Polk	2,007,882	2,038,001
Door	2,772,226	2,813,810	Portage	4,186,773	4,249,575
Douglas	2,534,829	2,572,852	Price	787,077	798,813
Dunn	1,989,077	2,018,913	Richland	878,632	891,812
Eau Claire	7,126,087	7,232,979	Rusk	662,539	672,477
Forest	341,231	346,350	St. Croix	4,403,463	4,469,515
Grant	1,900,678	1,929,189	Sauk	5,454,073	5,535,884
Green	1,245,000	1,523,675	Sawyer	1,278,506	1,297,684
Green Lake	1,041,052	1,056,668	Shawano	1,866,951	1,894,955
Iowa	1,297,576	1,317,040	Taylor	881,207	894,425
Iron	376,378	382,025	Trempealeau	1,137,931	1,155,000
Jackson	920,578	934,388	Vernon	1,076,415	1,092,562
Jefferson	4,369,599	4,435,144	Vilas	1,808,246	1,835,370
Juneau	1,121,836	1,138,664	Walworth	6,266,094	6,360,086
Kenosha	8,705,922	8,836,512	Washburn	883,287	896,537
La Crosse	8,369,323	8,494,864	Washington	7,188,049	7,295,870
Lafayette	462,727	469,668	Waupaca	2,745,938	2,787,127
Langlade	1,222,290	1,240,625	Waushara	971,645	986,220
Lincoln	1,483,585	1,505,839	**TOTAL**	**$232,034,773**	**$235,775,321**

[1]Estimates assume that county sales taxes received from June to December of 2002 will be the same for the June-December period in 2003.

TABLE 2
ESTIMATED 2004 COUNTY SALES TAX YIELD POTENTIAL
(For Counties Without a Sales Tax)[1]

County	Est. 2004 Yield	County	Est. 2004 Yield
Brown	$17,905,867	Menominee	$ 66,835
Calumet	1,592,432	Outagamie	14,160,905
Clark	1,270,299	Racine	11,398,985
Florence	126,290	Rock	12,184,103
Fond du Lac	5,777,490	Sheboygan	6,192,723
Kewaunee	991,654	Waukesha	30,134,823
Manitowoc	3,866,158	Winnebago	11,797,204
		Wood	6,834,309
		TOTAL	**$124,300,076**

[1]These counties do not have a sales tax in effect in 2003 nor are there any pending referenda in these counties for a county sales tax. Their 2004 yield potential is based on each county's percentage of total retail sales according to the *Sales and Marketing Management* survey of 2000 sales, assuming that 72 counties would collect $384 million if all levied the tax in 2004.