



## SALES TAX FORECASTING FOR WISCONSIN COUNTIES: PROBLEMS AND POTENTIAL YIELD (2006 UPDATE)<sup>1</sup>

At this writing, 58 of Wisconsin's 72 county governments will levy a sales tax in 2005. (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 The tax can be repealed by delivery of a certified copy of a repeal ordinance to the Department of Revenue at least 60 days before the effective date of repeal, which for all counties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). Retailers collect and send the tax to the state, keep track of where sales occur, and keep 0.5% to help defray their administrative costs. The state processes returns, enforces compliance, distributes monthly checks, and retains 1.75% of the tax to defray its 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<sup>2</sup>, 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-

<sup>1</sup>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.

<sup>2</sup>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.

#### **2005 and 2006 Estimated Tax Yields**

County officials, therefore, should use the potential 2005 and 2006 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, a retailer located in Iowa County, Wisconsin, then I as a Madison resident will pay the Dane 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. County officials need to consider these kinds of special circumstances when preparing their revenue estimates.

To estimate the 2005 tax yields for counties with some sales tax history, as shown in Table 1, I added county sales tax distributions through May of 2005 to the 2004 modified June

through December distributions. To estimate the 2006 tax yields, for counties with some sales tax history, I averaged the state's sales tax growth estimates for the 2005–2006 fiscal year (3.9%) and 2006-2007 fiscal year (4.1%), modified it, and merely added the result – a uniform and more conservative 2.5% – to the estimated 2005 receipts. Keep in mind that these are state projections and that 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 2006 yield potential is based on each county's percentage of total retail sales in the state according to the Sales and Marketing Management Survey of 2002 sales. The percentage of county sales is used to allocate the estimated \$420 million that would be collected in 2006 if all 72 counties levied the sales tax.

**TABLE 1**  
**ESTIMATED SALES TAX YIELD POTENTIAL FOR 2005 AND 2006**

<b>County</b>	<b>2005<sup>(1)</sup></b>	<b>2006</b>	<b>County</b>	<b>2005</b>	<b>2006</b>
Adams	1,019,337	1,044,820	Marathon	10,604,900	10,870,023
Ashland	1,028,314	1,054,022	Marinette	2,873,118	2,944,946
Barron	3,451,012	3,537,288	Marquette	715,879	733,776
Bayfield	833,649	854,491	Milwaukee	60,924,652	62,447,769
Buffalo	565,082	579,209	Monroe	2,481,136	2,543,165
Burnett	860,417	881,928	Oconto	1,562,638	1,601,703
Chippewa	3,381,062	3,465,589	Oneida	3,751,663	3,845,454
Columbia	3,468,778	3,555,497	Ozaukee	6,034,467	6,185,328
Crawford	1,280,666	1,312,683	Pepin	343,203	351,783
Dane	40,868,434	41,890,144	Pierce	1,482,363	1,519,422
Dodge	4,630,991	4,746,766	Polk	2,260,362	2,316,871
Door	2,967,131	3,041,309	Portage	4,505,409	4,618,044
Douglas	2,905,855	2,978,502	Price	844,824	865,944
Dunn	2,270,053	2,326,805	Richland	956,222	980,128
Eau Claire	7,756,293	7,950,200	Rusk	690,525	707,788
Forest	377,344	386,777	St. Croix	5,133,139	5,261,467
Grant	2,311,018	2,368,794	Sauk	6,784,713	6,954,330
Green	1,892,201	1,939,506	Sawyer	1,460,207	1,496,712
Green Lake	1,120,563	1,148,577	Shawano	2,036,663	2,087,580
Iowa	1,602,553	1,642,617	Taylor	928,505	951,718
Iron	387,140	396,818	Trempealeau	1,261,911	1,293,458
Jackson	979,449	1,003,935	Vernon	1,180,369	1,209,878
Jefferson	4,832,012	4,952,813	Vilas	2,015,893	2,066,290
Juneau	1,278,355	1,310,314	Walworth	7,297,117	7,479,545
Kenosha	9,361,506	9,595,543	Washburn	1,022,652	1,048,218
La Crosse	9,194,095	9,423,948	Washington	8,272,039	8,478,840
Lafayette	583,735	598,328	Waupaca	2,970,428	3,044,689
Langlade	1,287,210	1,319,391	Waushara	1,025,759	1,051,403
Lincoln	1,550,834	1,589,605	Wood	4,512,150	4,624,954
			<b>TOTAL</b>	<b>\$259,977,994</b>	<b>\$266,477,443</b>

<sup>1</sup>Estimates assume the county sales taxes that will be collected from June to December of 2005 will be the same as that received during the June-December period in 2004.

**TABLE 2**  
**ESTIMATED 2006 COUNTY SALES TAX YIELD POTENTIAL**  
**(For Counties Without a Sales Tax)<sup>1</sup>**

County	Est. 2006 Yield	County	Est. 2006 Yield
Brown <sup>2</sup>	\$21,353,431	Menominee	\$ 87,348
Calumet	1,646,644	Outagamie	16,623,652
Clark	1,538,772	Racine	12,366,203
Florence	124,605	Rock	12,743,417
Fond du Lac	6,065,730	Sheboygan	6,136,887
Kewaunee	1,158,880	Waukesha	32,664,041
Manitowoc	4,406,593	Winnebago	11,854,051
		<b>TOTAL</b>	<b>\$128,770,253</b>

<sup>1</sup>These counties do not have a sales tax in effect in 2005 nor are there any pending referenda in these counties for a county sales tax. Their 2006 yield potential is based on each county's percentage of total retail sales according to the 2004 *Sales and Marketing Management* survey of 2002 sales, assuming that 72 counties would collect \$420 million if all levied the tax in 2006.

<sup>2</sup> The Brown County estimate increases 2004 stadium collections by 2.5%.