



## SALES TAX FORECASTING FOR WISCONSIN COUNTIES: PROBLEMS AND POTENTIAL YIELD (2007 UPDATE)<sup>1</sup>

At this writing, 59 of Wisconsin's 72 county governments will levy a sales tax in 2006. (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 The tax can be repealed by delivery of a certified copy of a repeal ordinance to the Department of Revenue at least 60 days before the effective date of repeal, which for all counties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.

#### **2006 and 2007 Estimated Tax Yields**

County officials, therefore, should use the potential 2006 and 2007 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 2006 tax yields for counties with some sales tax history, as shown in Table 1, I added county sales tax distributions through May of 2006 to the 2005 modified June

through December distributions. To estimate the 2007 tax yields, for counties with some sales tax history, I averaged the state's sales tax growth estimates for the 2006–2007 fiscal year (4%) and 2007-2008 fiscal year (3%), modified it, and merely added the result – a uniform and more conservative 1.75% – to the estimated 2006 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 2007 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 2003 sales. The percentage of county sales is used to allocate the estimated \$449 million that would be collected in 2007 if all 72 counties levied the sales tax.

**TABLE 1**  
**ESTIMATED SALES TAX YIELD POTENTIAL FOR 2006 AND 2007**

<b>County</b>	<b>2006<sup>(1)</sup></b>	<b>2007</b>	<b>County</b>	<b>2006</b>	<b>2007</b>
Adams	1,050,815	1,069,205	Marathon	11,551,529	11,753,680
Ashland	1,042,899	1,061,149	Marinette	2,935,170	2,986,536
Barron	3,577,425	3,640,030	Marquette	813,616	827,854
Bayfield	857,071	872,070	Milwaukee	62,811,200	63,910,396
Buffalo	601,032	611,550	Monroe	2,652,019	2,698,430
Burnett	865,528	880,675	Oconto	1,626,343	1,654,804
Chippewa	3,717,108	3,782,158	Oneida	3,813,513	3,880,250
Columbia	3,527,450	3,589,180	Ozaukee	6,114,892	6,221,903
Crawford	1,326,259	1,349,469	Pepin	370,492	376,976
Dane	42,243,645	42,982,909	Pierce	1,562,618	1,589,964
Dodge	5,099,361	5,188,600	Polk	2,356,934	2,398,181
Door	3,031,386	3,084,435	Portage	4,951,041	5,037,684
Douglas	3,060,102	3,113,654	Price	830,337	844,868
Dunn	2,271,544	2,311,296	Richland	964,164	981,037
Eau Claire	7,968,366	8,107,813	Rusk	713,654	726,143
Florence <sup>2</sup>	35,250	129,250	St. Croix	5,540,335	5,637,291
Forest	419,283	426,621	Sauk	6,813,710	6,932,950
Grant	2,452,267	2,495,182	Sawyer	1,476,598	1,502,438
Green	2,004,362	2,039,438	Shawano	1,979,886	2,014,534
Green Lake	1,117,875	1,137,438	Taylor	948,831	965,435
Iowa	1,370,010	1,393,985	Trempealeau	1,379,062	1,403,195
Iron	410,734	417,922	Vernon	1,201,182	1,222,203
Jackson	1,035,990	1,054,120	Vilas	2,049,346	2,085,209
Jefferson	5,063,117	5,151,721	Walworth	7,452,557	7,582,977
Juneau	1,309,319	1,332,232	Washburn	1,028,878	1,046,883
Kenosha	9,760,832	9,931,647	Washington	8,589,794	8,740,115
La Crosse	9,589,791	9,757,613	Waupaca	2,965,882	3,017,785
Lafayette	611,673	622,377	Waushara	1,028,060	1,046,051
Langlade	1,328,649	1,351,900	Wood	4,651,071	4,732,465
Lincoln	1,524,304	1,550,980	<b>TOTAL</b>	<b>\$269,446,164</b>	<b>\$274,254,855</b>

<sup>1</sup>Estimates assume the county sales taxes that will be collected from June to December of 2006 will be the same as that received during the June-December period in 2005.

<sup>2</sup>Florence County adopted the county sales tax effective July 1, 2006. The 2006 estimate assumes one-third of an estimated annual collection of \$141,231. The 2007 estimate assumes a 92% collection of this same amount.

**TABLE 2**  
**ESTIMATED 2007 COUNTY SALES TAX YIELD POTENTIAL**  
**(For Counties Without a Sales Tax)<sup>1</sup>**

County	Est. 2007 Yield	County	Est. 2007 Yield
Brown <sup>2</sup>	\$20,894,319	Outagamie	\$17,099,543
Calumet	1,583,501	Racine	12,406,127
Clark	1,436,204	Rock	13,089,239
Fond du Lac	6,220,059	Sheboygan	6,188,667
Kewaunee	1,190,414	Waukesha	33,883,689
Manitowoc	4,218,882	Winnebago	11,660,117
Menominee	83,990		
		<b>TOTAL</b>	<b>\$129,954,750</b>

<sup>1</sup>These counties do not have a sales tax in effect in 2006 nor are there any pending referenda in these counties for a county sales tax. Their 2007 yield potential is based on each county's percentage of total retail sales according to the 2005 *Sales and Marketing Management* survey of 2003 sales, assuming that 72 counties would collect \$449 million if all levied the tax in 2007.

<sup>2</sup>The Brown County estimate increases FY 2006 stadium collections by 1.75%.