



SALES TAX FORECASTING FOR WISCONSIN COUNTIES: PROBLEMS AND POTENTIAL YIELD (2003 UPDATE)¹

At this writing, 56 of Wisconsin's 72 county governments will levy a sales tax in 2002, with Grant 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 The tax can be repealed by delivery of a certified copy of a repeal ordinance to the Department of Revenue at least 60 days before the effective date of repeal, which for all counties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 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 taxable retail sales by county. (Many retail sales items and services are exempt.) Sales tax forecast-

¹By 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.

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.

ing is risky even for a county that has received the tax for a full year or more. This yield is based on 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 2002 – 03) 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 2002, and the rest could be received in the first eight or nine months of calendar 2003.

2002 and 2003 Estimated Tax Yields

County officials, therefore, should use the potential 2002 and 2003 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 2002 tax yields for counties with some sales tax history, as shown in Table 1, we added county sales tax distributions through May of 2002 to the 2001 modified June through December distributions. To estimate the 2003 tax yields, for counties with some sales tax history, we have averaged the state's sales tax growth estimates for the 2002–2003 fiscal year (4.1%) and 2003-2004 fiscal year (5.0%), modified it, and merely added the result – a uniform and more conservative 2.5% -- to their estimated 2002 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 2003 yield potential is based on each county's percentage of total retail sales according to the Sales and Marketing Management Survey of 1999 sales. The percentage of county sales is used to allocate the estimated \$384 million that would be collected in 2003 if all 72 counties levied the sales tax.

TABLE 1
ESTIMATED SALES TAX YIELD POTENTIAL FOR 2002 AND 2003

County	2002⁽¹⁾	2003	County	2002	2003
Adams	849,812	871,057	Marathon	9,606,090	9,846,243
Ashland	950,557	974,321	Marinette ⁽⁴⁾	1,855,697	2,186,014
Barron	2,913,938	2,986,786	Marquette	762,074	781,126
Bayfield	773,021	792,347	Milwaukee	58,724,439	60,192,550
Buffalo	504,003	516,603	Monroe	2,067,832	2,119,528
Burnett	750,713	769,480	Oconto	1,397,154	1,432,083
Chippewa	3,169,982	3,249,231	Oneida	3,177,694	3,257,136
Columbia	2,884,992	2,957,116	Ozaukee	5,454,568	5,590,932
Crawford	1,131,946	1,160,245	Pepin	372,162	381,466
Dane	36,282,175	37,189,230	Pierce	1,296,102	1,328,504
Dodge	4,058,531	4,159,995	Polk	1,930,735	1,979,004
Door	2,688,302	2,755,509	Portage	4,072,219	4,174,025
Douglas	2,500,058	2,562,559	Price	777,695	797,138
Dunn	1,922,567	1,970,631	Richland	849,608	870,848
Eau Claire	7,014,775	7,190,144	Rusk	677,947	694,896
Forest	344,249	352,855	St. Croix	4,323,489	4,431,576
Grant ⁽²⁾	1,196,587	1,994,313	Sauk	5,098,611	5,226,076
Green Lake	1,010,094	1,035,346	Sawyer	1,265,936	1,297,585
Iowa	1,280,561	1,312,575	Shawano	1,795,857	1,840,753
Iron	396,312	406,219	Taylor	894,108	916,461
Jackson	895,289	917,671	Trempealeau	1,104,000	1,131,600
Jefferson	4,314,162	4,422,016	Vernon	1,029,611	1,055,352
Juneau	1,150,630	1,179,396	Vilas	1,789,517	1,834,254
Kenosha	8,453,140	8,664,469	Walworth	6,191,112	6,345,890
La Crosse	8,415,261	8,625,643	Washburn	897,708	920,150
Lafayette ⁽³⁾	398,829	485,903	Washington	7,088,540	7,265,754
Langlade	1,174,667	1,204,034	Waupaca	2,694,016	2,761,366
Lincoln	1,441,410	1,477,445	Waushara	<u>1,000,820</u>	<u>1,025,840</u>
			TOTAL	\$227,061,905	\$232,738,452

¹Estimates assume that county sales taxes received from June to December of 2001 will be the same for the June-December period in 2002.

²Grant County adopted the county sales tax effective on April 1, 2002. Estimates assume 45% of collections in 2002 and 75% of collections in 2003. The estimated sales tax yield is \$2,659,085.

³Lafayette County adopted the county sales tax effective on April 1, 2001. Estimates assume 82% of collections in 2002 and 100% of collections in 2003. The estimated sales tax yield used is \$485,903.

⁴Marinette County adopted the county sales tax effective on October 1, 2001. Estimates assume 85% of collections in 2002 and 100% of collections in 2003. The estimated sales tax yield that is used is \$2,186,014.

TABLE 2
ESTIMATED 2003 COUNTY SALES TAX YIELD POTENTIAL
(For Counties Without a Sales Tax)¹

County	Est. 2003 Yield	County	Est. 2003 Yield
Brown	\$18,172,262	Menominee	\$ 65,026
Calumet	1,504,810	Outagamie	14,338,539
Clark	1,456,004	Racine	11,567,010
Florence	120,854	Rock	12,235,898
Fond du Lac	5,982,803	Sheboygan	6,351,190
Green	4,450,618	Waukesha	30,098,607
Kewaunee	992,014	Winnebago	11,381,400
Manitowoc	3,878,133	Wood	<u>6,905,795</u>
		TOTAL	\$129,500,964

¹These counties do not have a sales tax in effect in 2002 nor are there any pending referenda in these counties for a county sales tax. Their 2003 yield potential is based on each county's percentage of total retail sales according to the *Sales and Marketing Management* survey of 1999 sales, assuming that 72 counties would collect \$384 million if all levied the tax in 2003.