



## SALES TAX FORECASTING FOR WISCONSIN COUNTIES: PROBLEMS AND POTENTIAL YIELD (2005 UPDATE)<sup>1</sup>

At this writing, 58 of Wisconsin's 72 county governments will levy a sales tax in 2004, with Wood 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 The tax can be repealed by delivery of a certified copy of a repeal ordinance to the Department of Revenue at least 60 days before the effective date of repeal, which for all counties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). 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.

#### **2004 and 2005 Estimated Tax Yields**

County officials, therefore, should use the potential 2004 and 2005 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 2004 tax yields for counties with some sales tax history, as shown in Table 1, I added county sales tax distributions through May of 2004 to the 2003 modified June

through December distributions. To estimate the 2005 tax yields, for counties with some sales tax history, I averaged the state's sales tax growth estimates for the 2004–2005 fiscal year (4.3%) and 2005-2006 fiscal year (3.4%), modified it, and merely added the result – a uniform and more conservative 2.0% -- to the estimated 2004 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 2005 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 2001 sales. The percentage of county sales is used to allocate the estimated \$413 million that would be collected in 2005 if all 72 counties levied the sales tax.

**TABLE 1**  
**ESTIMATED SALES TAX YIELD POTENTIAL FOR 2004 AND 2005**

<b>County</b>	<b>2004<sup>(1)</sup></b>	<b>2005</b>	<b>County</b>	<b>2004</b>	<b>2005</b>
Adams	935,069	953,770	Marathon	10,242,645	10,447,498
Ashland	953,775	972,850	Marinette	2,759,783	2,814,979
Barron	3,510,024	3,580,224	Marquette	614,036	626,317
Bayfield	741,625	756,457	Milwaukee	60,865,639	62,082,951
Buffalo	525,494	536,004	Monroe	2,381,403	2,429,031
Burnett	743,091	757,953	Oconto	1,512,161	1,542,404
Chippewa	3,366,828	3,434,164	Oneida	3,688,991	3,762,770
Columbia	3,292,390	3,358,238	Ozaukee	6,025,999	6,146,519
Crawford	1,186,972	1,210,712	Pepin	333,496	340,165
Dane	40,362,765	41,170,021	Pierce	1,337,563	1,364,314
Dodge	4,287,843	4,373,600	Polk	2,097,265	2,139,210
Door	2,810,274	2,866,479	Portage	4,590,805	4,682,621
Douglas	2,685,515	2,739,226	Price	788,557	804,328
Dunn	2,143,000	2,185,860	Richland	875,703	893,217
Eau Claire	7,787,261	7,943,006	Rusk	697,854	711,811
Forest	368,706	376,080	St. Croix	4,951,794	5,050,830
Grant	1,980,071	2,019,673	Sauk	6,100,023	6,222,023
Green	1,748,437	1,783,406	Sawyer	1,374,126	1,401,609
Green Lake	983,921	1,003,599	Shawano	1,923,096	1,961,558
Iowa	1,704,155	1,738,238	Taylor	895,647	913,560
Iron	338,032	344,793	Trempealeau	1,218,093	1,242,455
Jackson	985,523	1,005,233	Vernon	1,116,745	1,139,080
Jefferson	4,628,543	4,721,144	Vilas	1,963,287	2,002,553
Juneau	1,143,266	1,166,131	Walworth	6,807,091	6,943,233
Kenosha	8,869,241	9,046,626	Washburn	926,767	945,302
La Crosse	8,864,609	9,041,901	Washington	7,775,621	7,931,133
Lafayette	535,940	546,659	Waupaca	2,881,135	2,938,758
Langlade	1,218,195	1,242,559	Waushara	953,286	972,352
Lincoln	1,528,283	1,558,849	Wood <sup>2</sup>	3,830,585	5,107,447
			<b>TOTAL</b>	<b>\$251,758,042</b>	<b>\$257,993,453</b>

<sup>1</sup>Estimates assume the county sales taxes that will be collected from June to December of 2004 will be the same as that received during the June-December period in 2003.

<sup>2</sup>Wood County adopted the county sales tax effective January 1, 2004. The 2004 revised estimate reflects 60% of the initial estimate for Wood County; the 2005 estimate of \$6,834,309 reflects 80% of the initial estimate.

**TABLE 2**  
**ESTIMATED 2005 COUNTY SALES TAX YIELD POTENTIAL**  
**(For Counties Without a Sales Tax)<sup>1</sup>**

County	Est. 2005 Yield	County	Est. 2005 Yield
Brown	\$20,098,294	Menominee	\$ 80,626
Calumet	1,670,771	Outagamie	15,847,122
Clark	1,495,559	Racine	12,127,191
Florence	124,350	Rock	12,513,326
Fond du Lac	5,916,892	Sheboygan	5,957,875
Kewaunee	1,085,793	Waukesha	35,573,332
Manitowoc	4,293,318	Winnebago	12,340,643
		<b>TOTAL</b>	<b>\$129,125,091</b>

<sup>1</sup>These counties do not have a sales tax in effect in 2004 nor are there any pending referenda in these counties for a county sales tax. Their 2005 yield potential is based on each county's percentage of total retail sales according to the 2003 *Sales and Marketing Management* survey of 2001 sales, assuming that 72 counties would collect \$413 million if all levied the tax in 2005.