

## Wisconsin Council on Children and Families

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Revenue Matters -- 2010 Issue # 5  
Wisconsin Budget Project -- WCCF  
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Please feel free to forward messages to any other interested parties, and encourage others to sign up for this and/or other WCCF mailing lists at <http://capwiz.com/wccf/mlm/signup/>

Note: This summer the Wisconsin Budget Project initiated a [blog](#), which provides regular updates on the issues below. In fact, for many of the following items you can find additional analysis and commentary in our blog posts. Check it out, and sign up there to follow our blog – either by e-mail or RSS feed.

The Wisconsin Budget Project is now on [Facebook](#)! “Like” us to stay up to date with publications, events, blog posts, and more!

Also check out the new [Recovery Act Resources](#), including our recent county-by-county estimates of the ARRA spending that went direct to Wisconsin residents (see item #3).

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### 1. WISCONSIN SCHOOLS SLIP TOWARD AVERAGE IN SPENDING AND STAFFING

They've got their pencils sharpened, new backpacks slung on their backs, and their lunches packed – it's time for the kids to head back to school. How does the quality of the schools our children are attending compare to that of schools in years past?

The Wisconsin Budget Project released a [new two-page budget brief](#) yesterday that takes a look at state support for public schools, per pupil spending, and student/teacher ratios, and comes to the conclusion that although we were once a national leader in educational innovation and performance, Wisconsin is at risk of becoming a solid 'C' student. Also, Wisconsin might also have to stay after class and clean the blackboards. This full report as well as other budget-related materials can be found on the [Wisconsin Budget Project website](#).

Our press release can be found [here](#).

### 2. CONGRESS APPROVES STATE FISCAL RELIEF – FOR MEDICAID AND SCHOOLS

In early August, the U.S Senate was finally able to break the GOP filibuster and pass a deficit-neutral bill that extends fiscal relief for the states – in the form of an extension of enhanced Medicaid funding and an additional year of funding for schools. The House quickly approved the Senate version of the bill, HR 1586, and it was signed into law by the President.

A [memo issued last week by the Legislative Fiscal Bureau](#) (LFB) indicates that Wisconsin will receive an estimated \$194 million from the new law's extension of Medicaid relief. The memo says that funding will reduce the state's projected Medicaid (and BadgerCare Plus) deficit to \$58 million GPR. However, DHS will release new estimates of the Medicaid deficit in a couple of weeks. A new [Wisconsin Budget Project blog post](#) examines the LFB numbers and the recent news that the executive branch would need legislative approval to address the deficit by delaying Medicaid payments until the next biennium.

[Another recent LFB memo](#) explains the new federal assistance for schools, and details how much each school district will get by distributing those funds using the school equalization aid formula, as authorized by the Governor. It compares those allocations with what each district would have gotten by using one of two possible Title I distribution formulas. The memo also describes the maintenance of effort standards, which are designed to ensure that the funding is used to supplement and not supplant current education funding in states.

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### 3. NEW WEB RESOURCES & WCCF ANALYSIS ON RECOVERY ACT SPENDING IN WI

In February 2009, President Obama signed the American Recovery and Reinvestment Act, which provided \$787 billion in stimulus funds to support fiscal relief, direct benefits, grants, and infrastructure improvements. Eighteen months later, there continue to be new resources describing how the money is being spent and describing the outcomes of the stimulus. Recent developments include:

- A [new Budget Project report](#) describing how direct benefits in the Recovery Act benefited Wisconsinites. The paper finds that six types of direct benefits provided by the Act generated more than \$3 billion for Wisconsin residents between February 2009 and May 2010. The benefits are broken down by county, to make it easy to determine how much residents of Eau Claire County received through the Making Work Pay tax credit or how much people living in Sheboygan County received in enhanced FoodShare benefits.
- A new website called [Wisrecovers.org](#), which includes information on how the Recovery Act helped Wisconsin, how the money was used, and how to advocate for future aid. This site was developed by the Institute for Wisconsin's Future and its partners in ARRA related work.
- A new section of the [Wisconsin Budget Project website](#) that is devoted to stimulus issues, and includes briefs, papers, blog posts, and external links relevant to recovery issues. You can also find [a recent WCCF paper](#) on this section of the site that describes how enhanced Medicaid funding for states has allowed Wisconsin to protect Medicaid and BadgerCare Plus benefits during a period of rapid enrollment growth.

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### 4. ANALYSIS COMPARES EFFECTS IN WI OF COMPETING FEDERAL TAX PROPOSALS

The Bush tax cuts are set to expire at the end of 2010, and President Obama and Congressional Republicans have offered competing proposals as to which aspects of the tax cuts should be continued. The two approaches would yield similar effects for middle and upper middle-income taxpayers in Wisconsin, but they would have different impacts for low-income families and especially for the very highest income groups.

In an Aug. 23 Budget Project blog post, we summarize the findings of a [Citizens for Tax Justice simulation](#) of how the competing proposals would affect WI families at different income levels. In short:

- Taxpayers earning in the bottom forty percent would get tax cuts of about \$110 more under President Obama's plan.
- Taxpayers in the top 1% income group, who earn an average of \$1 million, would receive a tax cut of \$39,327 more with the Republican plan than with the Obama proposal.

[Read more »](#)

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## 5. BUDGET PROJECT UPDATES WI BUDGET BASICS GUIDE

Need a quick refresher on how the Wisconsin budget process works and how the state gets and spends its money? Check out [the Budget Basics Guide](#), a layperson's guide to state revenue and spending trends put together by the Wisconsin Budget Project.

In easy-to-understand language, this guide gives a quick overview on why the state budget matters, the state's sources of tax revenue, and top programs in terms of GPR spending. We've just updated Census data in this report – making the comparisons to other states in terms of tax and spending as recent as possible. As we head into election season and face the increasing likelihood of a budget repair bill, you might want to look over the [Budget Basics Guide](#) to refresh your understanding of state budget issues.

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## 6. IWF RELEASES PAPER ON HARLEY-DAVIDSON AND STATE TAX POLICY

Harley-Davidson continues to be in the news, as it seeks \$54 million in concessions from unions representing production employees in Wisconsin. Without these concessions, Harley-Davidson will consider moving its headquarters and manufacturing operations out of Wisconsin, its home since the company was founded in Milwaukee in 1903.

What does Harley-Davidson possibly leaving the state have to do with state tax policy? Very little, according to a [May report from the Institute for Wisconsin's Future](#), although that hasn't stopped some from using Harley-Davidson to criticize Wisconsin revenue policies. IWF notes that Harley has not requested tax incentives to stay in Wisconsin and has not offered criticism of the state's combined reporting tax rules.

The report shows that Harley-Davidson's Wisconsin taxes have dropped dramatically over the past five years. Its state income tax bill plummeted from nearly \$23 million in 2005 to just under \$1 million in 2008, while the change in its pre-tax profits was much less, from \$1.5 billion to \$1.0 billion.

Check out the [full report](#) for more, including a discussion of why Harley-Davidson corporate decisions do not hinge on combined reporting rules.

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## 7. ITEP REPORT REVEALS REGRESSIVITY OF ITEMIZED DEDUCTIONS

The Institute on Taxation and Economic Policy (ITEP) has released [a new study](#) on itemized deductions for income taxes. These deductions have a negative effect on tax fairness, with most of the benefit accruing to high-income taxpayers. Most states follow in the footsteps of the federal

government in their approaches towards itemized deductions, but the good news is that Wisconsin is in the minority of states that take a variety of approaches to limit the regressive nature of the deductions.

Wisconsin's approach using tax credits, although less regressive than the itemized deductions, still predominantly benefits upper-income filers: In 2008, 57% of the credits used benefit filers with at least \$100,000 in income. This is because expenses that qualify for the credit tend to be higher for filers with larger incomes, and because expenses are eligible for the credit only to the extent that they exceed the standard deduction, which is higher for lower-income filers and phases out completely at high levels of income.

There's more about this report at the [Wisconsin Budget Project blog](#).

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## 8. GOODBYE AND GOOD RIDDANCE TO REFUND ANTICIPATION LOANS

"Get your tax refund sooner!" advertise some tax preparers come tax season. Take out your glasses and read the fine print, though, because this way of receiving your tax refund is actually a loan, and one that carries a heavy price. Thanks to a policy change made by the IRS, these refund anticipation loans (also known as RALs) may be a relic of the past. Read more in a recent [WI Budget Project blog post](#).

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## 9. PLEASE SUPPORT WCCF AND THE WISCONSIN BUDGET PROJECT

If you value this newsletter and the work the WI Budget Project is doing to help find ways to fill the huge hole in the state budget, we could really use your help in filling the hole in the WCCF budget. You can contribute on the following portion of our website: <https://payments.auctionpay.com/ver3/?id=w043832>

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