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The Capitol Report

**Online sales tax ruling, projected Medicaid surplus could bolster 2019-21 budget**

When election-year politics start heating up, some government pros look the other way and focus on the upcoming state budget.

The state budget is a two-year document, which gets started well before it’s introduced to the Legislature by the governor early in odd-numbered years.

Two pieces of recent news — plus a healthy state economy and a record-low unemployment rate — could set the stage for a positive revenue picture entering 2019.

**Out-of-state online retailers to be taxed**

On Oct. 1, Gov. Scott Walker's administration plans to begin collecting sales taxes from online retailers with no presence in Wisconsin. It's projected to boost state coffers by $90 million in the current fiscal year, according to a new memo from non-partisan legislative fiscal analysts.

After that, it's projected to bring in $120 million annually through applying the state's 5 percent sales tax to those online sales. That estimate is below the $123 million to $187 million the U.S. Government Accountability Office said Wisconsin stood to gain. The Legislative Fiscal Bureau also noted counties that impose the 0.5 percent sales tax and the 0.1 percent stadium park district sales and use tax would combine for an additional $10.3 million starting in 2019-20.

Walker’s office told WisPolitics.com that it plans to use the administrative rules process to begin collecting the tax and is in the process of notifying retailers of the expected Oct. 1 start date.

Walker's office also referred to his recent comments that he could look to use the additional sales tax revenue to cut taxes through the state budget.

A recent LFB memo laid out the impact of the recent U.S. Supreme Court ruling, which gives states the power to collect sales taxes from online retailers even if they don't have a physical presence in their states. The Bureau said it believes the ruling triggers a 2013 budget provision requiring additional revenue from "any federal law" change pertaining to online sales taxes be used to reduce income taxes, adding income tax reductions from that trigger likely couldn't kick in until at least tax year 2020.

Still, if Walker wins re-election this fall, he could use the next state budget to direct how the additional revenue would be used.

Because individual tax brackets for 2020 are not known, any estimates for a reduction in incomes taxes under the 2013 law may not be reliable, LFB wrote in the memo. But if the provision had been in place for tax year 2017, the average income tax cut would have been $52. The biggest average reduction in the gross income tax would've been $592 for those taxed at the current top rate of 7.65 percent, which covered income of $247,350 or more for a single filer in 2017.

**Medicaid fund surplus expected**

Another piece of good budget news concerns the Medicaid program that funds health care costs for people with a limited income and the elderly.

The Department of Health Services is now projecting the state will have a general purpose revenue surplus of $102.4 million in the Medicaid fund at the end of the 2017-19 budget, which concludes on June 20, 2019.

The report on the fourth quarter, marking the halfway point of the current two-year budget, is an improvement from the projected $59.7 million surplus at the end of March.

Still, the new projected surplus represents just 1.7 percent of the $6.1 billion in general purpose revenue budgeted for Medicaid during the 2017-19 budget.

DHS Secretary Linda Seemeyer wrote to the Legislature’s Joint Finance Committee that hitting the halfway point of the budget has given the agency a better sense of trends for the remainder of the biennium.

That includes a 0.7 percent drop in monthly enrollment for BadgerCare Plus children and a 2.3 percent drop for the program's parents and caretakers. That will partially offset growth for childless adults of 1.9 percent and 1.5 percent for the elderly, blind and disabled.

DHS is also now projecting growth of 8.5 percent in prescription drug costs compared to 10.5 percent in previous projections.

The new projection also assumes a lower trend in nursing home use, though those savings are partially offset by higher assumptions for personal care expenditures that help people live independently in their own homes.

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