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## Steven Walters: New tax auditors will target out-of-state firms

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STEVEN WALTERS  
Monday, September 21, 2015



*Steven Walters is a senior producer with the nonprofit WisconsinEye public affairs channel. Contact him at [stevenswalters@gmail.com](mailto:stevenswalters@gmail.com).*

Minnesota is taking Wisconsin to school on how to collect taxes and track down debt scofflaws. One result is that Wisconsin auditors will be calling on more out-of-state companies whose accounts have never been checked.

Minnesota has 5.4 million residents—fewer than Wisconsin's 5.7 million. But, for many years, Minnesota had about twice as many tax auditors and agents as Wisconsin.

Minnesota then went from 608 to 816 tax-compliance professionals, a 34 percent increase. What happened? Tax collections soared to as much as \$1.2 million per year for each Minnesota agent and auditor,

according to Wisconsin's nonpartisan Legislative Fiscal Bureau.

The reaction of Wisconsin's Department of Revenue, legislators and Gov. Scott Walker?

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“We'll have some of that.”

That's why the Wisconsin Department of Revenue (DOR) is hiring 113 new professionals—102 tax auditors and supervisors and 11 agents who will focus on collecting unpaid debts. That's about a one-third increase in the department's tax-compliance workers.

It's also ironic that hiring more auditors and agents was easily approved by Republicans, many of whom normally preach the gospel of limited government.

But, in a state that has had to repeatedly face—and fix—budget deficits now being mentioned in GOP presidential debates, estimates of how much more in tax collections and unpaid debts more professionals will bring in apparently convinced even tea partiers in the Legislature.

After salaries, fringe benefits, travel and other costs are subtracted, the 102 new auditors will generate about \$88 million a year more in tax collections, state Revenue Secretary Richard Chandler estimated in a recent WisconsinEye interview.

Walker's February budget estimated that each new “front-line auditor” could average about \$940,000 in revenue by mid-2017, according to a Legislative Fiscal Bureau summary. Sixteen audit positions will focus on sales tax returns; one out of every seven companies licensed to collect Wisconsin's sales tax have out-of-state addresses.

Many of the additional auditors will be based outside Wisconsin, so they can focus on auditing corporations that claim a “nexus”—or business connections—with Wisconsin. The revenue department, which once had auditors based in New York City, now has offices in Madison, Milwaukee, Chicago and Minneapolis.

Specifically, 31 of the new audit positions will focus on income and franchise-tax returns filed by large corporations. Experienced “large-case corporate tax auditors” can generate up to \$2.2 million each per year, according to the fiscal bureau.

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The 11 new agents will track down companies and individuals with unpaid debts to state and local governments. By mid-2017, these 11 new agents are expected to collect about \$37 million more in unpaid debts with \$24 million of that being paid to local governments and \$13 million going to state revenue coffers.

State government now has seven agents chasing down unpaid local and state debts, Chandler said.

Surprisingly, some companies up for tax audits have never been scrutinized by the state's revenue department.

In a briefing paper for legislators that documented how hiring more auditors would pay big dividends, after training that can last up to four years, fiscal bureau analysts said:

The revenue department “notes that significant underreporting of sales/use taxes has been associated with businesses headquartered outside the state, in part because such businesses have never been subject to a Wisconsin audit.

“From 2011-12 through 2013-14, DOR administered a pilot program related to this type of auditing that asked existing staff to volunteer to travel and audit out-of-state entities—DOR reports that the pilot program produced average collections of between \$1 million and \$3.8 million per [auditor].”

One more reason why the revenue department is retooling its tax-compliance efforts is a wave of retirements and resignations. On Jan. 26, for example, 42 auditors were hired to fill jobs “vacated by incumbent staff,” according to the fiscal bureau. Days later, 15 more tax-compliance officers were hired.

Despite the hiring of 113 new tax auditors and agents, Chandler insisted that most Wisconsin taxpayers have nothing to fear.

“You shouldn't think that, because we have more auditors, your chances of being audited are going up, or you're going to face a heavy-handed audit procedure in the future,” Chandler said. “These are really focused on out-of-state businesses in several areas.”

And even after Wisconsin hires those additional 113 compliance professionals, Minnesota will still have twice as many.

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