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Contact: Jack Norman at 414-967-1682

Small change can mean big revenue boost

Tax avoidance creates massive state budget hole

Wisconsin loses \$1.2 billion every year due to the "Tax Gap," the difference between what is legally owed by taxpayers and what is actually paid. This equals one out of every \$10 collected by the state as general purpose revenue.

The estimate is in a new report from the Institute for Wisconsin's Future: *Wisconsin's Billion-Dollar Tax Gap—How uncollected taxes can help fill the state's budget hole.*

The tax gap is important because the loss of over one billion dollars a year means less state aid to cities, towns, counties and schools. The reduced state aid results in program cuts that raise class size, slow firefighter response time and deliver fewer meals on wheels to the elderly. At the same time, property taxes go up to make up for lost state dollars.

It's a double whammy for responsible citizens and business owners who file their tax returns, pay their taxes and support the services and infrastructure needed for stable and prosperous communities.

Who's not paying taxes? Some of it is people making honest mistakes or being confused by complex tax laws. But a good deal of it is deliberate:

- Individuals, business owners and corporations skipping out on paying income tax;
- Internet buyers and others avoiding sales tax;
- Smokers sneaking around the cigarette tax by going out of state.

What should be done?

State officials need ongoing information on how large the gap is, who is not paying and what mechanisms they are using to sidestep their responsibility. Technology upgrades are needed to improve online taxpayer services, communications and outreach as well as e-filing and the use of electronic databases for audits and collections. The Department of Revenue needs full staffing so it can fulfill its mission.

It's time to simplify tax laws so they are clear. Wisconsin's tax structure is too complicated due to the proliferation of new exemptions, deductions and credits which makes tax laws too long, too wordy and too easy to manipulate.

The report is available on the Institute for Wisconsin's Future's web site: www.wisconsinsfuture.org.

The Institute for Wisconsin's Future is a non-profit research and public education organization based in Glendale, a suburb of Milwaukee. Its work is funded primarily by national philanthropies.

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