

**Budget Blow** (continued from page 1)

The state Department of Revenue (DOR) and the business community have been debating about the software for several years. At issue is the word "custom." Menasha Corporation and other businesses admit that they have taken "off the shelf" software and had that software significantly altered or "customized." The state said it is still taxable because it started on the "shelf." WIB and other organizations have argued with DOR for years that the software became "custom" software with the alterations. Ultimately, the Wisconsin Supreme Court agreed. But winning the battle has caused a serious fiscal problem.

The legislature will apparently not come back to Madison to address the latest crisis. Governor Doyle doesn't plan to call them back into "Special Session" and legislative leaders say they won't call themselves into "Extraordinary Session" to deal with the problem. Lawmakers have no desire to tackle tough tax-and-spend issues just before an election. That means the governor and lawmakers will face an even bigger deficit when they begin budget deliberations early next year.

The threat of a tax increase in 2009 is very real. Farm and small business owners need to focus on the fact that the single easiest way to increase tax revenue will be to expand the sales tax base to business services and farm necessities. Expansion is terrible public policy but, of all potential tax hikes, it irritates the fewest voters. WIB members will be facing a serious challenge next year. It is a challenge the small business and farm communities MUST be prepared to meet!

## AG EXPORTS UP!

State officials say Wisconsin's agriculture exports shot up 13% in the first half of 2008. Leading the way was a 59% increase in dairy exports, according to Governor Jim Doyle. Products used for livestock feed, baking ingredients and foods also showed big increases.

Is the typical Wisconsin farm benefitting from the export increases? WIB would like to hear from you on this issue. E-mail us at [wcorey@wibiz.org](mailto:wcorey@wibiz.org) or write Wayne Corey at WIB, P.O. Box 2135, Madison 53701.



*State Senator Kathleen Vinehout (L) and State Rep. Donna Seidel recently met in Wausau to discuss health care reform with a group of WIB members. WIB's Wayne Corey is in the background.*

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*The Voice of Independent Business  
in State Government*

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# WIB Newsletter

*The voice of independent business in state government.*

3RD QUARTER 2008

### **ANOTHER STATE BUDGET BLOW**

Wisconsin's state budget remains precariously "balanced" as the legislature heads toward the November election and a return to Madison in January. The already shaky budget took another big hit recently when the state Supreme Court ruled that the state has improperly collected sales tax on computer software the court deemed to be customized. Custom computer software is not subject to the state sales tax but software purchased "off the shelf" is taxable. The ruling could have far-reaching tax consequences for farm and small business owners even though they are not directly affected by the decision.

The court ruled 4-3 that computer software used by Menasha Corporation was custom software and, hence, not subject to the state sales tax. The state must refund about \$265 million to Menasha and other companies and will not collect an expected \$28 million in 2008-09 sales taxes. The hit on the state budget will total close to \$300 million in the 2007-09 biennium. Every piece of bad budget news puts sales tax exemptions on business services and farm necessities in potentially greater jeopardy.

The situation is bad for the State of Wisconsin and poses a serious threat for Wisconsin small business and farm owners. The Wisconsin Constitution requires that the state budget be balanced. For 2+ decades the budget has been balanced with funny money and accounting tricks. Just two months ago the legislature "repaired" the two year budget they had approved just last October. The battle in the 2008 fiscal year (July 1, 2007-June 30, 2008) was about making cuts. No Capitol official appeared to have the political courage to propose tax increases. As a practical and political matter, there are very few places where significant cuts can be made for the 2009-2011 budget.

School districts, cities, counties, towns and the University of Wisconsin System have all taken their fiscal lumps in recent years. Lawmakers also know there are some programs such as the sprawling prison system that really can't be cut further without endangering the safety of people who work inside those prisons. Likewise, a variety of health programs including BadgerCare Plus and SeniorCare have proven immensely popular. These are the areas where the overwhelming percentage of General Purpose Revenue is spent. General Purpose Revenue comes from the dollars you pay in sales and income taxes.

*Continued on page 2*

### **ELECTION COULD HAVE IMPACT ON LEGISLATURE**

The November election could significantly change the state legislature, a change that might – or might not – work in favor of Wisconsin's farmers. The Senate is controlled by Democrats and most observers believe the November elections will keep them in power. Republicans have controlled the Assembly since 1995. The current margin is 52-47 so a change in just three seats would tip the balance of power to the Democrats. The Dems are fighting hard to gain control after 14 years in the legislative wilderness. Republicans are working equally hard to remain in charge.

What should farmers look for as candidates seek your vote in coming weeks? With the state budget a train wreck waiting to happen, farmers must be concerned about the sales tax exemptions historically applied to farm necessities. Almost equally important is preserving the sales tax exemptions on business services, many of them used by farm operators. These services include accounting & tax preparation, legal work, surveying and commercial leases. With Republicans controlling the Assembly and Democrats in charge of the Senate, there has been a strong disincentive to tinker with the sales tax codes. If both houses are controlled by Democrats AND if there is a strong move to honestly balance the state budget, a lot of goods and services currently tax exempt could be targeted for elimination.

A key tip: if a candidate talks about getting rid of "tax loopholes" or "reviewing tax loopholes," the candidate is certainly talking about your sales tax exemptions. Ask serious questions and remind the candidate that those exemptions help keep farming in Wisconsin alive.

Health care, another big issue for farmers, is different. History shows that Democrats in the legislature have been much more receptive to reform. In recent years, however, Democrats have looked at massively reforming the existing system without first asking the public about it. If Republicans have been the party of health care status quo, some Democrats have been ready to throw out the baby with the bath water. The Dems appear to have backed off their most sweeping proposals during this campaign season. Nonetheless, when meeting with candidates, farmers should give specifics about your current coverage and what changes you want in the current health care/health insurance system.

Above all, it is imperative that you vote in November and vote for every office on the ballot. Strong participation in the democratic process helps make Wisconsin stronger. And that's good for everyone!