

2001 DRAFTING REQUEST

Bill

Received: 12/12/2000

Received By: **shoveme**

Wanted: **As time permits**

Identical to LRB:

For: **Administration-Budget 6-1805**

By/Representing: **Geisler**

This file may be shown to any legislator: **NO**

Drafter: **shoveme**

May Contact:

Alt. Drafters:

Subject: **Tax - individual income**

Extra Copies:

Pre Topic:

DOA:.....Geisler -

Topic:

Individual income taxation; indexing the 4th income tax bracket

Instructions:

See attached.

Drafting History:

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/1	shoveme 12/19/2000	gilfokm 12/19/2000	kfollet 12/20/2000	_____	lrb_docadmin 12/20/2000		State
/2	shoveme 01/12/2001	gilfokm 01/12/2001	rschluet 01/14/2001	_____	lrb_docadmin 01/14/2001		State

FE Sent For:

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12 MES 1/12/01 1/2-1/4 kmg
 FE Sent For: 12-01
 1-14-01

<END>

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May Contact:

Alt. Drafters:

Subject: Counties - zoning
Real Estate - condominiums

Extra Copies:

Pre Topic:

DOA:.....Geisler -

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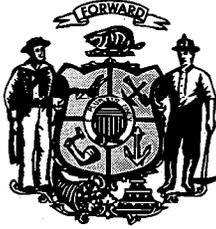
FE Sent For:

<END>

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
101 East Wilson Street, Madison, Wisconsin

TOMMY G. THOMPSON
GOVERNOR

GEORGE LIGHTBOURN
SECRETARY



Division of Executive Budget and Finance
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1736
Fax (608) 267-0372
TTY (608) 267-9629

Date: December 11, 2000

To: Steve Miller, LRB

From: Jeffrey A. Geisler, DOA
266-1805

Subject: Indexing the 4th Individual Income Tax Bracket Statutory Language Draft

Please draft language for the Governor's budget that change the indexing provisions for the top individual income tax bracket. A [REDACTED] in the attached background paper provides detailed instructions and explanation.

Please call me (6-1805) if you have questions.

Thanks

Wisconsin Department of Revenue
Division of Research and Analysis
Bureau of State Tax Policy

January 20, 2000

TITLE: Individual Income Tax – Indexing

DESCRIPTION OF CURRENT LAW AND PROBLEM

Top Bracket: 1999 Wisconsin Act 9 created a fourth tax bracket, effective in tax year 2000, when taxable income exceeds \$112,500 for single persons, \$150,000 for married couples filing jointly and \$75,000 for married persons filing separately. It also indexed these bracket amounts for inflation.

For tax year 2000, the bracket amounts specified in the statutes would be indexed for the change in the Consumer Price Index (CPI) from August 1997 to August 1999. For tax year 2001, the statutory bracket amounts would be indexed for the change in CPI from August 1999 to August 2000. In other words, the statutory bracket amounts are adjusted for two years of inflation for tax year 2000, but only for one year of inflation for tax year 2001. As a result, the taxable income levels at which the top tax rate is imposed are higher in 2000 than in 2001. Specifically, the incomes above which the top tax rate applies are (2000 amounts are actual, 2001 amounts are estimated):

Filing Status	Tax Year 2000	Tax Year 2001
Single	\$116,890	\$115,140
Married Joint	\$155,850	\$153,520
Married Separate	\$77,390	\$76,760

The fourth tax bracket was proposed by the Governor. His intent was to have the top rate imposed on income in excess of the statutory amounts of \$112,500 for single persons, \$150,000 for married couples and \$75,000 for married persons filing separately in tax year 2000, with indexing to begin in tax year 2001.

Other Changes: Two clarifications to existing indexing language are needed:

1. The statutes require indexed values that are not a multiple of \$10 to be rounded to the nearest multiple of \$10, but also require that a multiple of \$5 be rounded to the next higher multiple of \$10. Since a multiple of \$10 is also a multiple of \$5, this language suggests that a multiple of \$10 be rounded to the next highest \$10. Currently, the Department is not rounding a multiple of \$10 to the next highest \$10.
2. The statutes require indexing of standard deduction amounts and phase-out floors and ceilings, rounding all amounts to the nearest \$10. Because of rounding, the deduction may phase out, using the rate set by the statutes, at a different ceiling than that determined using the statutory provisions relating to indexing. To avoid this conflict, the Department indexes the deduction amount and the phase-out floor, and calculates from them a new phase-out ceiling using the statutory phase-out rate. Statutes can be clarified to reflect this practice by deleting language indicating when the deduction is equal to \$0.

RECOMMENDATION FOR ACTION

Top Bracket - Alternative 1: Eliminate indexing of taxable income levels above which the fourth tax rate is imposed for tax year 2000. Under this alternative, the top tax rate would be imposed on the statutory amounts of taxable income and indexing would begin in tax year 2001. This was the intent of the Governor when he proposed the fourth tax bracket.

Top Bracket - Alternative 2: For tax year 2001 and subsequent years, index the taxable income levels above which the top tax rate applies for changes in the CPI from August 1997 to August of the prior year. The taxable income levels above which the top rate would apply in 2001 are estimated to be \$119,630 for single persons, \$159,510 for married couples and \$79,750 for married persons filing separately.

Other Changes: Modify sections 71.05 (22)(dm), (dp) and (ds) and 71.06 (2e) to clarify the indexing computation for the standard deduction and tax brackets.

FISCAL/ADMINISTRATIVE IMPACT

Top Bracket - Alternative 1: +\$550,000 in FY01. Information about bracket indexing according to the provisions of Act 9 has already been distributed, in particular in forms and instructions used in the calculation of estimated tax payments. Reducing the bracket amounts may result in underpayment of estimated payments by some taxpayers.

Top Bracket Alternative 2: -\$450,000 annually beginning in FY02. Because the Department distributes information on indexed bracket amounts at the beginning of tax year 2001, this alternative should be enacted prior to the fall of 2000.

Other Changes: None. The proposed changes reflect current practice.

DRAFTING INSTRUCTIONS

Top Bracket - Alternative 1: Amend sec. 71.06 (2e) to provide that for taxable years beginning after December 31, 1999, and ending before January 1, 2001, there would be no indexing of the maximum amounts in sec. 71.06 (1n)(c) and (2)(e)3 and (f)3 and the amounts in sec. 71.06 (1n)(d) and (2)(e)4 and (f)4.

Top Bracket - Alternative 2: Amend sec. 71.06 (2e) to eliminate the exception to indexing for taxable years beginning after December 31, 2000.

Other Changes:

1. Insert language in sec. 71.05 (22)(ds) and (dt) and 71.06 (2e) stating that only multiples of \$5 that are not multiples of \$10 will be rounded to the next higher multiple of \$10.
2. Delete from sec. 71.05 (22)(dm) and (dp) the phase-out ceilings and related language stating when the standard deduction is equal to \$0.

3. **EFFECTIVE DATE OR INITIAL APPLICABILITY:** Initial applicability language is contained within the statutory sections being amended. No additional language is needed.

PERSON TO CONTACT: Dennis Collier, 266-5773

DC:skr

t:\bud 00\dc\indexing.bud.doc



State of Wisconsin
2001 - 2002 LEGISLATURE

LRB-1460/1

MES... King

DOA:.....Geisler – Individual income taxation; indexing the 4th income tax bracket

FOR 2001-03 BUDGET — NOT READY FOR INTRODUCTION

SOON

do not gen

1 AN ACT ...; relating to: indexing the tax brackets for individual income taxation.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

Under current law, the individual income tax brackets are indexed for inflation. Generally, for taxable years beginning after December 31, 1999, the brackets are increased each year by the same percentage as the percentage change between the consumer price index (CPI), calculated by the federal Department of Labor, for August of the previous year and August 1997. An exception to the general rule is that for taxable years beginning after December 31, 2000, the top bracket is increased each year by the same percentage as the percentage change between the CPI for August of the previous year and August 1999.

This bill ~~removes~~ the exception to the general rule governing indexing of the individual income tax brackets. ~~removes~~ that (S)

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

History: 1987 a. 312; 1987 a. 411 ss. 42, 43, 45, 47 to 49, 51 to 53; 1989 a. 31, 46; 1991 a. 2, 37, 39, 269; 1993 a. 16, 112, 204, 263, 437; 1995 a. 27, 56, 209, 227, 261, 371, 403, 453; 1997 a. 27, 35, 39, 237; 1999 a. 9, 32, 44, 54, 65, 167.

1 SECTION 1. 71.06 (2e) of the statutes is amended to read:

2 71.06 (2e) BRACKET INDEXING. For taxable years beginning after
3 December 31, 1998, and before January 1, 2000, the maximum dollar amount in
4 each tax bracket, and the corresponding minimum dollar amount in the next bracket,
5 under subs. (1m) and (2) (c) and (d), and for taxable years beginning after
6 December 31, 1999, the maximum dollar amount in each tax bracket, and the
7 corresponding minimum dollar amount in the next bracket, under subs. (1n), (1p)[✓],
8 and (2) (e), (f), (g)[✓] and (h), shall be increased each year by a percentage equal to the
9 percentage change between the U.S. consumer price index for all urban consumers,
10 U.S. city average, for the month of August of the previous year and the U.S. consumer
11 price index for all urban consumers, U.S. city average, for the month of August 1997,
12 as determined by the federal department of labor, ~~except that for taxable years~~
13 ~~beginning after December 31, 2000, the dollar amount in the top bracket under subs.~~
14 ~~(1p) (c) and (d), (2) (g) 3. and 4. and (h) 3. and 4. shall be increased each year by a~~
15 ~~percentage equal to the percentage change between the U.S. consumer price index~~
16 ~~for all urban consumers, U.S. city average, for the month of August of the previous~~
17 ~~year and the U.S. consumer price index for all urban consumers, U.S. city average,~~
18 ~~for the month of August 1999, as determined by the federal department of labor.~~
19 Each amount that is revised under this subsection shall be rounded to the nearest
20 multiple of \$10 if the revised amount is not a multiple of \$10 or, if the revised amount
21 is a multiple of \$5, such an amount shall be increased to the next higher multiple of
22 \$10. The department of revenue shall annually adjust the changes in dollar amounts

1 required under this subsection and incorporate the changes into the income tax
2 forms and instructions.

3 History: 1987 a. 312; 1989 a. 31; 1993 a. 16; 1997 a. 27, 41, 237; 1999 a. 9.

(END)

Shovers, Marc

From: Miller, Steve
Sent: Friday, January 12, 2001 3:57 PM
To: Shovers, Marc
Subject: FW: Change to Budget Draf tLRB 1460/1 - Individual income taxation; indexing the 4th income tax bracket

-----Original Message-----

From: Geisler, Jeffrey
Sent: Friday, January 12, 2001 3:51 PM
To: Miller, Steve
Subject: Change to Budget Draf tLRB 1460/1 - Individual income taxation; indexing the 4th income tax bracket

Steve,
Please make this tax change effective for tax year 2002 (in the draft it is effective for tax year 2001).
thanks
Jeffrey A. Geisler
266-1805
DOA State Budget Office



State of Wisconsin
2001 - 2002 LEGISLATURE

LRB-1460/2

MES:kmg:kjf

RNR

DOA:.....Geisler - Individual income taxation; indexing the 4th income tax bracket

FOR 2001-03 BUDGET - NOT READY FOR INTRODUCTION

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This bill ~~removes~~ the exception to the general rule that governs indexing of the individual income tax brackets *to taxable year 2001*

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. 71.06 (2e) of the statutes is amended to read:

71.06 (2e) BRACKET INDEXING. For taxable years beginning after December 31, 1998, and before January 1, 2000, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1m) and (2) (c) and (d), and for taxable years beginning after December 31, 1999, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1n), (1p), and (2) (e), (f), (g), and (h), shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 1997, as determined by the federal department of labor, ~~except that for taxable years~~

~~beginning after December 31, 2000,~~ ^{and before January 1, 2002,} the dollar amount in the top bracket under subs. (1p) (e) and (d), (2) (g) 3. and 4. and (h) 3. and 4. shall be increased ^{each year} by a ^{retain striking} percentage equal to the ~~percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August 1999, as determined by the federal department of labor.~~

Each amount that is revised under this subsection shall be rounded to the nearest multiple of \$10 if the revised amount is not a multiple of \$10 or, if the revised amount is a multiple of \$5, such an amount shall be increased to the next higher multiple of \$10. The department of revenue shall annually adjust the changes in dollar amounts required under this subsection and incorporate the changes into the income tax forms and instructions.

(END)

except for the words "each year"

LPS:

make revision plain.



DOA:.....Geisler – Individual income taxation; indexing the 4th income tax bracket

FOR 2001-03 BUDGET — NOT READY FOR INTRODUCTION

1 AN ACT ...; relating to: indexing the tax brackets for individual income taxation.

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Under current law, the individual income tax brackets are indexed for inflation. Generally, for taxable years beginning after December 31, 1999, the brackets are increased each year by the same percentage as the percentage change between the consumer price index (CPI), calculated by the federal department of labor, for August of the previous year and August 1997. An exception to the general rule is that for taxable years beginning after December 31, 2000, the top bracket is increased each year by the same percentage as the percentage change between the CPI for August of the previous year and August 1999.

This bill limits the applicability of the exception to the general rule that governs indexing of the individual income tax brackets to taxable year 2001.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

