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# HOWARD MARKLEIN

STATE SENATOR • 17<sup>TH</sup> SENATE DISTRICT

**February 5, 2019**

**Senate Committee on Agriculture, Revenue & Financial Institutions  
Testimony on Senate Bill (SB) 18**

Good afternoon!

Thank you committee members for hearing Senate Bill 18 (SB 18) and the companion legislation Assembly Bill 4 (AB 4), which delivers middle class income tax relief without raising taxes on manufacturers and farmers.

This morning my committee held a separate hearing, with our colleagues on the Assembly Agriculture committee, about the Dairy Market Crisis. Rural Wisconsin, our farmers, ag producers and the entire agricultural industry requires our attention right now. They need us to provide relief, resources and support.

I would like to thank Speaker Vos and Rep. Macco for working on this bill, and scheduling this joint hearing. My goal has been to construct a middle class tax cut that is both good policy and positive for the people we serve.

SB 18 expands the sliding scale standard deduction targeting 75% of the total tax cut for filers with incomes between \$30,000 and \$100,000. The tax cut will be phased out for single filers over \$100,000 and joint filers over \$150,000. We pay for this proposal out of the surplus generated from our positive reforms, not by raising taxes on farmers during a time of tight margins and income uncertainty.

Thank you again for allowing me the opportunity to testify in support of this bill, and I welcome any questions.



WISCONSIN MANUFACTURERS & COMMERCE

**Testimony in Favor of Assembly Bill 4 and Senate Bill 18**

**Assembly Committee on Ways and Means & Senate Committee on Agriculture, Revenue, and  
Financial Institutions**

**February 5, 2019**

Thank you Chair Macco and Chair Marklein and members of the Assembly Committee on Ways and Means and Senate Committee on Agriculture, Revenue, and Financial Institutions for the opportunity to testify in support of Assembly Bill 4 and Senate Bill 18. Allowing Wisconsinites to keep more of their hard-earned dollars by supporting this middle class tax cut is good for workers and job creators.

Wisconsin Manufacturers & Commerce (WMC) is the state chamber of commerce and largest general business association in Wisconsin. We were founded over 100 years ago, and are proud to represent over 3,800 member companies of all sizes and from every sector of our economy. Our mission is to make Wisconsin the most competitive state in the nation in which to do business.

One of the surest ways to improve Wisconsin's business climate is to ensure that our system of taxation is competitive. This legislation will provide middle class Wisconsinites with \$340 million in tax relief. The median income family filing jointly will see a \$310 reduction in net taxes – a 10.6 percent cut.

Wisconsin finds itself in the midst of a worker shortage. With one of the lowest unemployment rates in the country and tens of thousands of open jobs, Wisconsin needs to attract more workers. Americans are migrating to low tax states. Wisconsin has the 4<sup>th</sup> highest state and local tax burden in the country. Michigan's, Ohio's, Illinois's, and Indiana's top state income tax rates are lower than our middle brackets, and Iowa and Indiana have recently enacted further tax cuts. In order to help attract talent, Wisconsinites need further tax relief.

Allowing Wisconsinites to keep more of their own money will stimulate our state's economy. Increasing the amount of wages workers get to take home means more disposable income, which can be spent on everything from groceries to snow blowers. This increased spending will produce a virtuous cycle of creating more jobs, more income, and more production.

Using a portion of the state's surplus to fund this tax cut instead of raising taxes on employers is the best course of action. Since the Manufacturing and Agriculture tax credit (MAC) was enacted, Wisconsin has gained over 43,700 manufacturing jobs. The MAC enables companies to invest in themselves, their employees, and their communities. Wisconsin manufacturers employ almost half a million workers. We cannot afford to raise the cost of manufacturing in Wisconsin if we want to remain competitive and continue to see growth and investment in this key sector of our economy. Because of the reforms over the last eight years, Wisconsin is in a fiscal position to cut taxes without hiking taxes on employers.

This legislation helps Wisconsin workers because it lets them keep more of their own money and employers because it helps them attract and retain talent. I urge you all to support this legislation.



# JIM STEINEKE

MAJORITY LEADER

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## 2019 Assembly Bill 4/Senate Bill 18

Relating to: increasing the maximum deduction under the individual income tax sliding scale standard deduction.

Testimony of State Representative Jim Steineke  
Assembly Committee on Ways and Means

Senate Committee on Agriculture, Revenue, and Financial Institutions  
February 5, 2019

Thank you, Chairmen Macco and Marklein, and committee members, for holding this public hearing.

Governor Evers and legislative Republicans have spoken openly about finding common ground, and it is my opinion that this is the perfect place to start. The Governor campaigned on a tax cut that would directly benefit middle-class Wisconsinites, and that is exactly what this legislation will accomplish. From a small family farmer outside of Monroe, to a middle-class family of four in Eau Claire, to a small business owner in Kaukauna, this legislation will help thousands of Wisconsinites.

Over the last eight years, legislative Republicans have worked hard to lower taxes. In fact, the state's tax burden is the lowest it has been in 50 years, and because of conservative reforms, we have been able to reduce taxes by over \$8 billion. In addition, moving into this budget cycle, the state is on solid fiscal ground. Just last week, the Legislative Fiscal Bureau estimated there will be an additional \$2.4 billion available for the next budget. This is great news for the state and taxpayers and is the reason this legislation is possible.

To build on these historic successes, Assembly Bill 4 provides \$340 million in tax relief for middle-class families across Wisconsin. The legislation accomplishes this by utilizing a sizeable budget surplus, and does so without raising taxes. The bill is targeted toward individuals making less than \$100,000 and families making \$150,000 or less. This means that a median income family will see a \$310 reduction in net taxes, or about a 10.5% reduction in their tax liability. Importantly, 75% of the tax cut will benefit filers who make between \$30,000 and \$100,000 a year. A tax cut for middle-class Wisconsin families should be a bipartisan issue, and that is why we look for broad support from colleagues on both sides of the aisle.

Since our caucus unveiled this plan a few weeks ago, we have heard from people around the state who support this bill. These people come from hard-working middle-class families. This money belongs to them. If passed, our legislation will put this money back in their pocket. From groceries for the family, to savings for college, this money will have a big impact on our friends and neighbors across Wisconsin.

Thank you for your time, and I encourage members of the committees to support Assembly Bill 4 and Senate Bill 18.

February 5, 2019

Testimony in Support of AB4 and SB18

Thank you Chairman Macco, Chairman Marklein and the respective joint committees for allowing me to appear in front of you today to speak in favor of AB4 and SB18.

My name is Katie Kress. I am a married mother of 3 young children. I am here today to support the proposed tax cut for the middle class. In addition, I am a Trustee for the Village of Menomonee Falls, which is Wisconsin's largest village of 37,000 people and growing.

We all work hard for the money we make and certainly all of us in the middle class would greatly benefit from a middle class tax cut. Whether it's putting food on our tables or buying clothes for our children, we as families can spend money more efficiently than the government.

Between property taxes, income tax, sales tax, federal taxes and the various fees and licenses, Wisconsinites pay more than their fair share in taxes and the proposed tax cut for the sometimes forgotten middle class would be most welcomed and long overdue.

Again thank you for allowing me to testify.

Katie Kress  
N60W21501 Legacy Trl  
Menomonee Falls, 53051



Date: February 5, 2019

To: Assembly Ways and Means Committee and Senate Committee on Agriculture, Revenue and Financial Institutions

From: Jon Peacock, Research Director

Re: Opposition to Assembly Bill 4/ Senate Bill 18

Thank you for the opportunity to testify on this proposed tax cut. I am here representing Kids Forward, which has been advocating on behalf of Wisconsin children and families for nearly 140 years.

We oppose AB 4 and SB 18 for three reasons:

- First, Wisconsin cannot afford to make another large tax cut – without jeopardizing our ability to make critically important investments in the health and wellbeing of the state’s citizens and communities – unless lawmakers agree upon a way to pay for that tax cut.
- Second, if or when you do pass another tax cut, it should also benefit the lower-income Wisconsinites whose taxes have been raised by past decisions to cut the state Earned Income Tax Credit and the Homestead Credit.
- Third, a fiscal policy decision of this magnitude should not be rushed through the legislature and passed outside the budget process, where legislators and their constituents can take a careful look at the pros and cons of a wide variety of options relating to taxes and spending.

Coming back to our first concern, our state needs to invest in healthy and well-educated workers and communities, public infrastructure, and working families. For our state to prosper, we need to make investments that enable all Wisconsinites to succeed. Our economy, our communities, our schools, and our families will fare better when every person in the state has full access to opportunity.

Wisconsin lawmakers have approved billions of dollars of tax cuts over the last 8 years, but job growth in our state has consistently lagged well below the national average, and we have been underfunding many of the cornerstones of the state’s future economic strength. It’s time for our state to make significant investments in education at all levels, from early education through college and technical training. We need to make significant investments in infrastructure and in the health and well-being of our workers and communities. We need to reverse state-level policies that have stripped resources from families and communities of color, and have contributed to the alarming racial disparities in our state. And there are a wide variety of other needs for additional state funding, such as investing in the child welfare system, which has been overwhelmed by opioid epidemic.

(over)

To be able to make those sorts of extremely important investments, our state needs adequate revenue. We should not repeat the mistake that lawmakers have frequently made in the past, of using a short-term budget balance to finance large, ongoing tax cuts. Instead, it's time to reconsider whether various tax breaks and tax loopholes are well structured and effective, and to find a way to pay for the proposal that has just been introduced.

Our second concern is that the proposed income tax cut does not help hundreds of thousands of low-income Wisconsinites who are struggling to make ends meet. There is a growing economic divide in Wisconsin. Economic trends have been contributing to that divide, but so have public policy decisions, such as the federal tax bill passed in late 2017, and policy choices made in Wisconsin. For example, low-income workers in our state are adversely affected by decisions such as cutting the state Earned Income Tax Credit, ending the annual inflationary adjustments to the Homestead Tax Credit, freezing the minimum wage, and charging premiums for adults in BadgerCare with incomes between 50 percent and 100 percent of the federal poverty level.

We appreciate that you are using an innovative way of making the proposed tax cut. This bill does a far better job than other recent income tax cuts – including the one approved in the December Extraordinary Session – of targeting the tax reduction for middle-income families. However, if the state can afford another round of tax cuts amounting to more than \$300 million, it's time to reverse the cuts the state has made to the Earned Income and Homestead Tax Credits. Also, if you really want to do something to make work pay, it is time for Wisconsin to expand the EITC to adults who don't have dependent children. Among the many states that have an EITC, Wisconsin is the only one that does not include childless adults and noncustodial parents.

Finally, as I mentioned at the outset, our third concern is the process for advancing this bill. We don't think it's wise to rush a major tax cut bill through the legislature and to do so outside the budget process. Wisconsin has a long and proud tradition of being deliberative in its budget decisions. State policymakers and your constituents need to be able to balance the pros and cons of your choices about tax policy against the competing options for spending state revenue.

Tax cuts are generally popular with the public, but polling in our state has shown that increased spending for schools is a higher priority with your constituents. We urge you to consider the tax and spending options in a deliberative way that allows you to balance a wide range of competing needs and objectives, and respects the role of your constituents in providing input into that process.

Richard A. Champagne, Chief and General Counsel  
Legal 608-266-3561 • Information 608-266-0341



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## MEMORANDUM

**TO** Senator Marklein  
**FROM** LRB - Legal Services  
**DATE** February 5, 2019  
**SUBJECT** Technical memorandum to **2019 SB 18** (LRB-1742/1) by DOR

We received the attached technical memorandum relating to your bill. This copy is for your information and your file.

If you wish to discuss this memorandum or the necessity of revising your bill or preparing an amendment, please contact the LRB drafter of your proposal.

**LRB DRAFTER:** Marc Shovers, Senior Legislative Attorney, (608) 504-5876

**MEMORANDUM**

February 4, 2019

**TO:** Marc Shovers  
Legislative Reference Bureau

**FROM:** Bob Schmidt  
Department of Revenue

**SUBJECT:** Technical Memorandum on 2019 LRB 1742/1: Relating to Increasing the  
Maximum Deduction under the Individual Income Tax Sliding Scale Standard  
Deduction

The Department has the following concerns related to the bill:

Section 71.05(22)(dp)(title) should be amended to read, "Deduction limits 2000 to 2019."

Section 71.05(22)(f)4.b. should also reference s. 71.05(22)(dq) as it currently does with secs. 71.05(22)(dm) and 71.05(22)(dp).

If you have any questions regarding this technical memorandum, please contact Brad Caruth at (608) 261-8984 or [bradley.caruth@revenue.wi.gov](mailto:bradley.caruth@revenue.wi.gov).



### Fiscal Estimate - 2019 Session

Original     
  Updated     
  Corrected     
  Supplemental

LRB Number <b>19-1742/1</b>	Introduction Number <b>SB-018</b>
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**Description**  
 increasing the maximum deduction under the individual income tax sliding scale standard deduction

**Fiscal Effect**

**State:**

No State Fiscal Effect  
 Indeterminate  
 Increase Existing Appropriations  
 Decrease Existing Appropriations  
 Create New Appropriations  
 Increase Existing Revenues  
 Decrease Existing Revenues  
 Increase Costs - May be possible to absorb within agency's budget  
      Yes       No  
 Decrease Costs

**Local:**

No Local Government Costs  
 Indeterminate  
 1.  Increase Costs      3.  Increase Revenue  
     Permissive  Mandatory     Permissive  Mandatory  
 2.  Decrease Costs      4.  Decrease Revenue  
     Permissive  Mandatory     Permissive  Mandatory

**5. Types of Local Government Units Affected**

Towns       Village       Cities  
 Counties       Others  
 School Districts       WTCS Districts

<b>Fund Sources Affected</b>	<b>Affected Ch. 20 Appropriations</b>
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	

<b>Agency/Prepared By</b> DOR/ Bradley Caruth (608) 261-8984	<b>Authorized Signature</b> Michael Oakleaf (608) 261-5173	<b>Date</b> 2/5/2019
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## Fiscal Estimate Narratives

DOR 2/5/2019

LRB Number	19-1742/1	Introduction Number	SB-018	Estimate Type	Original
<b>Description</b> increasing the maximum deduction under the individual income tax sliding scale standard deduction					

### Assumptions Used in Arriving at Fiscal Estimate

Under current law Wisconsin provides a sliding scale standard deduction that decreases as income increases. For tax year 2019 the maximum standard deduction for a single person is \$10,860. For single individuals with Wisconsin income above \$15,660, the standard deduction amount is reduced by 12% of the amount of income over \$15,660. As a result, single individuals with more than \$106,160 of income will not be able to claim a Wisconsin standard deduction.

The maximum standard deduction, the income threshold at which the deduction begins to phaseout, and the phaseout rate depend on the filing status of the claimant. Moreover, the maximum amount and the phaseout threshold are indexed for inflation. The tax year 2020 standard deduction parameters will be determined based on the consumer price index in August 2019.

This bill increases the 2020 standard deduction maximums relative to their current law expected levels by about 20.6% and it increases the thresholds at which the deduction begins to phaseout by about 17.6%. (See Attachment)

The bill also requires the Department of Revenue to adjust the individual income tax withholding tables no later than January 1, 2020 to reflect the new standard deduction parameters. Adjusting the withholding tables effectively delivers the tax reduction to wage earners via their paychecks rather than at the time they file their tax returns.

Based on a simulation using 2017 income tax returns, inflated to reflect 2020, the bill will reduce revenue by approximately \$152 million in fiscal year 2020, \$344 million in fiscal year 2021, and similar amounts annually thereafter.

### Long-Range Fiscal Implications

Attachment to DOR Fiscal Estimate for 2019 LRB 1742/1

**Current Law Expected Standard Deduction Parameters, 2020**

Filing Status	Single	Married Joint	Married Separate	Head of Household
Maximum Deduction	11,080	20,520	9,750	14,310
Phaseout Threshold	15,980	23,050	10,940	15,980
Phaseout Rate	12.00%	19.778%	19.778%	22.515%
Phaseout Ends	108,313	126,802	60,237	108,313

**Proposed Law Standard Deduction Parameters, 2020**

Filing Status	Single	Married Joint	Married Separate	Head of Household
Maximum Deduction	13,360	24,740	11,750	17,260
Phaseout Threshold	18,790	27,120	12,880	18,790
Phaseout Rate	12.30%	19.284%	19.284%	21.952%
Phaseout Ends	127,408	155,413	73,811	127,408

**Percentage Change**

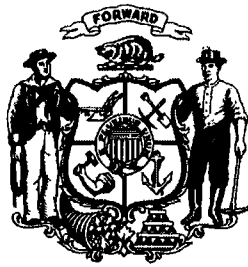
Filing Status	Single	Married Joint	Married Separate	Head of Household
Maximum Deduction	21%	21%	21%	21%
Phaseout Threshold	18%	18%	18%	18%
Phaseout Rate	3%	-2%	-2%	-3%
Phaseout Ends	18%	23%	23%	18%

## Fiscal Estimate Worksheet - 2019 Session

Detailed Estimate of Annual Fiscal Effect

Original
  Updated
  Corrected
  Supplemental

LRB Number <b>19-1742/1</b>		Introduction Number <b>SB-018</b>	
<b>Description</b>			
increasing the maximum deduction under the individual income tax sliding scale standard deduction			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
	State Operations - Salaries and Fringes	\$	\$
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$-344,000,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$-344,000,000</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		State	Local
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$-344,000,000	\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
DOR/ Bradley Caruth (608) 261-8984		Michael Oakleaf (608) 261-5173	2/5/2019



## WISCONSIN STATE SENATE

P. O. Box 7882 Madison, WI 53707-7882

February 5, 2019

**TO:** Members of the Senate Committee on Agriculture, Revenue and Financial Institutions  
Members of the Assembly Committee on Ways and Means

**FR:** Senator Howard Marklein  
Senator Duey Stroebel  
Senator Dale Kooyenga

**RE:** Senate Bill 18

Thank you for holding a public hearing on Senate Bill 18, which would increase the individual income tax sliding scale standard deduction.

In an effort to find bipartisan agreement with Governor Evers, we focused on his campaign promise to reduce the tax burden on middle class families. This bill fulfills his promise by targeting single filers making under \$100,000 per year and joint filers making under \$150,000 per year.

Though we have made significant reforms in simplifying our tax code we remain a high tax state. We believe it is our duty to push toward a tax code that rewards taxpayers, not tax collectors. If there is an opportunity to give more money back to the taxpayers, we will do it. We also fundamentally believe it is important to return excess revenue back to the Wisconsin taxpayers.

Specifically, Senate Bill 18 would:

- Increase the standard deduction for earners at the \$100,000 single / \$150,000 joint level
- Cut the tax liability in half for joint filers earning between \$30,000 and \$40,000
- Provide relief for almost 2 million tax filers
- Deliver median-income joint filers with \$300 in annual tax relief

It is important to remember what has afforded us the opportunity to propose this bill. Sound, fiscal discipline and responsible budgeting provided the state with \$2.4 billion in surplus revenue. It is clear that Wisconsin does not have a taxing problem, but a spending problem. When we lower the tax burden and limit our expenditures, we empower our economy and improve our fiscal solvency. Now is the time to return excess revenue to the taxpayers of Wisconsin.

We believe we should continue the habit of reducing what is taken from the taxpayer instead of looking for where else it can be spent. By increasing the standard deduction, we provide relief to the families that rely on it most.

Thank you again for hearing SB 18 and we respectfully ask for your support.



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# ROBIN J. VOS

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SPEAKER OF THE WISCONSIN STATE ASSEMBLY

## Testimony on Assembly Bill 4 – The Middle Class Tax Cut

Wisconsin's economy is in an enviable position. We are enjoying a historic stretch of unemployment at 3% or below. Our state's bond ratings have been upgraded. We have the largest rainy day fund we've ever had. We've cut taxes by more than \$8 billion over the past 8 years and finally moved Wisconsin out of the top 10 high-taxed states. And new revenue estimates show we are going into this budget cycle with a rollover balance of \$2.4 billion. That is the highest amount available in any January LFB estimate in at least 20 years – and that balance is based on combination of strong revenue growth and lower-than-expected expenditures.

Wisconsin voters have chosen divided state government - so as this new session began, our caucus discussed how to move forward working with our new governor - and one area of common ground we immediately saw was in the middle class tax cut proposed by the governor throughout his campaign.

Governor Evers proposed a \$340 million tax cut for single filers making under \$100,000 and joint filers making under \$150,000 – a tax cut he calculated to be a 10% reduction for those earners.

While \$340 million falls short of the figure needed to deliver a 10% across the board cut for those earners, we worked with the fiscal bureau to find a mechanism to cut taxes for those middle income earners. We do this by increasing the standard deduction for earners in these earnings ranges, and in so doing, give Wisconsin one of the most generous standard deductions in the nation.

While Governor Evers would have funded the tax cut by increasing taxes on farmers and local employers, we fund the middle class tax cut with our surplus. Even a complete elimination of the manufacturing and agriculture tax credit – a credit a UW report says has helped create 42,000 jobs in Wisconsin - is not enough to fund this tax cut. We don't need to jeopardize these jobs when we can return the surplus to the taxpayers through this legislation.

We have worked session after session to cut taxes in Wisconsin and return surpluses to the taxpayers. While my preference would always be to cut taxes across the board, we are happy to reach across the aisle to deliver tax relief targeted to middle class earners who represent the majority of filers and who we know will welcome the additional money in their family budgets.

This bill delivers the tax cut Governor Evers proposed, without raising taxes on anyone, and instead uses the surplus balance generated by legislative Republicans. This tax cut is a win for taxpayers, a win for Governor Evers and a win for legislative Republicans who have worked to cut taxes for taxpayers using surpluses generated by prudent fiscal management.

As I said, we start this budget cycle with about a \$2.4 billion. Last budget cycle, we started with about \$2 billion available – and we were able to deliver a \$636 million increase for our K12 schools, \$100 million to the UW System, and cut taxes. Even after passing this middle class tax cut legislation, we will start the budget process with roughly the same funding available as last session.

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## Legislative Fiscal Bureau

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Email: [fiscal.bureau@legis.wisconsin.gov](mailto:fiscal.bureau@legis.wisconsin.gov) • Website: <http://legis.wisconsin.gov/lfb>

February 4, 2019

**TO:** Senator Howard Marklein  
Room 8 South, State Capitol

**FROM:** Bob Lang, Director

**SUBJECT:** Senate Bill 18: Increasing the Maximum Deduction Under the Individual Income Tax Sliding Scale Standard Deduction

Senate Bill 18 (SB 18) was introduced on February 4 and referred to the Senate Committee on Agriculture, Revenue, and Financial Institutions.

### BACKGROUND

Taxable income, the amount of income that is actually subject to tax, is computed by subtracting the sliding scale standard deduction and personal exemptions from Wisconsin adjusted gross income (AGI). The sliding scale standard deduction is based on formulas that vary by filing status and that phase out the deduction over certain AGI thresholds. The formula factors are indexed for inflation and change each year.

Due to indexing, the factors for tax year 2020 are unknown at this time. However, an indexing adjustment of 2% is estimated, resulting in the following deduction calculations. A maximum deduction of \$20,520 will be extended to married joint filers with Wisconsin AGI less than \$23,050. Single and head-of-household filers with Wisconsin AGI less than \$15,980 will be able to claim maximum deductions of \$11,080 and \$14,310, respectively. As Wisconsin AGI increases, each of the deduction amounts phases down, until it equals \$0 when Wisconsin AGI reaches \$126,802 for married joint filers and \$108,313 for single and head-of-household filers. The deduction phaseouts are based on statutory percentages for each filing type, except the percentage for head-of-household filers changes to the percentage for single filers when Wisconsin AGI exceeds a certain level. The deduction and income phaseout amounts for married separate filers are set equal to 47.5% of the amounts for married joint filers. The following table displays the estimated deduction amounts by filing status for tax year 2020.

**Sliding Scale Standard Deduction by Filing Status for Tax Year 2020  
Estimated Under Current Law**

<u>Filing Status</u>	<u>Wisconsin AGI</u>	<u>Standard Deduction</u>
Married Joint	Less than \$23,050	\$20,520
	\$23,050 to \$126,802	\$20,520 - 19.778% (WAGI - \$23,050)
	Greater than \$126,802	\$0
Single	Less than \$15,980	\$11,080
	\$15,980 to \$108,313	\$11,080 - 12.000% (WAGI - \$15,980)
	Greater than \$108,313	\$0
Head-of-Household	Less than \$15,980	\$14,310
	\$15,980 to \$46,698	\$14,310 - 22.515% (WAGI - \$15,980)
	Greater than \$46,698	Single Standard Deduction
Married Separate	Less than \$10,940	\$9,750
	\$10,940 to \$60,237	\$9,750 - 19.778% (WAGI - \$10,940)
	Greater than \$60,237	\$0

State law authorizes the Department of Revenue (DOR) to adjust the individual income tax withholding tables to reflect changes in tax rates, the imposition of a surtax, or statutory changes to the income brackets for the tax. DOR last changed the withholding tables in April, 2014.

**SUMMARY OF SB 18**

The bill would increase the maximum deduction by 20.6% for each filer type, increase the income levels for beginning the deduction phaseout by 17.6%, and modify each of the phaseout percentages so that they are closer together beginning in tax year 2020. The deduction would be structured as follows:



**Sliding Scale Standard Deduction by Filing Status for Tax Year 2020  
Under SB 18 Proposal to Expand the Deduction**

<u>Filing Status</u>	<u>Wisconsin AGI</u>	<u>Standard Deduction</u>
Married Joint	Less than \$27,120	\$24,740
	\$27,120 to \$155,413	\$24,740 - 19.284% (WAGI - \$27,120)
	Greater than \$155,413	\$0
Single	Less than \$18,790	\$13,360
	\$18,790 to \$127,408	\$13,360 - 12.300% (WAGI - \$18,790)
	Greater than \$127,408	\$0
Head-of-Household	Less than \$18,790	\$17,260
	\$18,790 to \$59,196	\$17,260 - 21.952% (WAGI - \$18,790)
	Greater than \$59,196	Single Standard Deduction
Married Separate	Less than \$12,880	\$11,750
	\$12,880 to \$73,811	\$11,750 - 19.284% (WAGI - \$12,880)
	Greater than \$73,811	\$0

In addition, the bill would direct DOR to adjust the withholding tables no later than January 1, 2020, to reflect the proposed changes to the sliding scale standard deduction.

**FISCAL EFFECT**

The bill would reduce individual income tax collections by an estimated \$338.1 million in tax year 2020 and \$350.0 million in tax year 2021. Relative to the tax year 2020 amount, the withholding tables change would result in a revenue reduction of \$152.1 million in 2019-20. The balance of the tax year 2020 estimated revenue reduction, \$186.0 million, would occur in 2020-21, along with a revenue reduction of \$157.5 million related to the tax year 2021 withholding table effect. The total revenue reduction for 2020-21 is estimated at \$343.5 million (\$186.0 million + \$157.5 million), and the reduction for the 2019-21 biennium is estimated at \$495.6 million.

The preceding amounts include both direct and indirect effects resulting from the bill. The bill's direct effect is reduced individual income tax liabilities for taxpayers claiming higher standard deductions. The bill's indirect effect results from the interaction between the standard deduction and the state itemized deduction credit. Because the calculation of the credit is based, in part, on the claimant's standard deduction, a higher standard deduction will result in a decrease in tax credit claims. For tax year 2020, itemized deduction credits are estimated to decrease by \$55.0 million, from \$316.0 million to \$261.0 million.

The bill would result in an estimated 1,987,030 tax filers, or 63.5% of all filers, experiencing an income tax decrease in tax year 2020. The average tax decrease is estimated at \$170, and would be higher for married joint filers (\$231) than for other filers (\$131). However, a higher average percentage reduction is estimated for other filers (7.98%) than for married joint filers (6.66%), and

the average reduction for all filers with a tax decrease is estimated at 7.21%. The tax reduction is targeted to taxpayers with incomes below the expanded income phaseout levels of \$155,413 for married joint filers and \$127,408 for single and head-of-household filers. A small number of filers with higher incomes would also experience tax decreases, but they total fewer than 18,000 filers with decreases of about \$160,000, or about \$9 per filer. These are part-year or nonresidents who calculate their standard deduction based on their federal AGI. Information on the distribution of taxpayers with a tax decrease is included in three attachments to this bill analysis. The distributional tables include the estimated effects by Wisconsin AGI on married joint taxpayers, other (single) taxpayers, and all taxpayers for tax year 2020.

There are also an estimated 830 taxpayers who would experience tax increases, but those increases total only \$12,830 and average only \$15 per taxpayer. These are taxpayers who claim the itemized deduction credit. The credit equals 5% of certain federal itemized deductions in excess of the state standard deduction. For credit claimants' income that is subject to the state's 4% marginal tax rate, the 1% difference between the credit rate and tax rate could result in a tax increase.

Tax filers without a tax change would include those without a tax liability and those with a WAGI above the proposed phaseout level for the deduction.

RO/lb  
Attachments

**ATTACHMENT 1**

**Distribution of Taxpayers with a Tax Decrease Under SB 18 Proposal to Expand the Sliding Scale Standard Deduction  
All Filers, Tax Year 2020**

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease						Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Decrease	Percent of Decrease	Decrease in Net Tax	Average Decrease		
Under \$5,000	15,150	0.76%	-\$161,650	0.05%	-10.93%	-\$11	454,630	3.3%
5,000 to 10,000	13,350	0.67	-368,370	0.11	-12.30	-28	208,370	6.4
10,000 to 15,000	61,590	3.10	-2,664,400	0.79	-36.38	-43	176,110	35.0
15,000 to 20,000	99,450	5.00	-7,702,580	2.28	-36.36	-77	160,480	62.0
20,000 to 25,000	130,170	6.55	-13,880,070	4.11	-30.26	-107	160,860	80.9
25,000 to 30,000	140,590	7.08	-20,523,830	6.07	-25.09	-146	161,060	87.3
30,000 to 40,000	296,370	14.92	-50,701,640	15.00	-18.19	-171	306,000	96.9
40,000 to 50,000	250,900	12.63	-50,280,120	14.87	-13.05	-200	254,940	98.4
50,000 to 60,000	200,440	10.09	-41,555,860	12.29	-9.75	-207	203,440	98.5
60,000 to 70,000	159,570	8.03	-34,466,450	10.19	-8.01	-216	161,960	98.5
70,000 to 80,000	125,940	6.34	-28,721,490	8.50	-7.02	-228	128,620	97.9
80,000 to 90,000	105,100	5.29	-24,776,800	7.33	-6.16	-236	107,540	97.7
90,000 to 100,000	92,020	4.63	-21,505,800	6.36	-5.27	-234	93,950	97.9
100,000 to 125,000	177,450	8.93	-32,507,210	9.62	-3.37	-183	181,200	97.9
125,000 to 150,000	103,200	5.19	-8,111,480	2.40	-1.16	-79	118,290	87.2
150,000 to 200,000	15,710	0.79	-143,370	0.04	-0.12	-9	116,520	13.5
200,000 to 250,000	10	< 0.01	-790	< 0.01	-1.11	-79	50,210	< 0.01
250,000 to 300,000	10	< 0.01	-1,060	< 0.01	-0.96	-106	24,840	< 0.01
300,000 to 500,000	10	< 0.01	-1,570	< 0.01	-1.11	-157	35,020	< 0.01
500,000 and over	---	---	---	---	---	---	25,460	0.0
<b>Total</b>	<b>1,987,030</b>	<b>100.00%</b>	<b>-\$338,074,540</b>	<b>100.00%</b>	<b>-7.21%</b>	<b>-\$170</b>	<b>3,129,500</b>	<b>63.5%</b>

- An estimated 1,987,030, or 63.5% of all tax filers in tax year 2020, would experience a tax decrease under the bill.  
 - The total tax decrease is estimated at \$338.1 million in tax year 2020.

- For all taxpayers with a tax reduction, the average 2020 tax decrease would be \$170. The average tax decrease would increase as income rises, until reaching \$236 for taxpayers in the \$80,000 to \$90,000 WAGI class.

- For taxpayers with a tax decrease, the decrease would average 7.21%. On average, taxpayers in the \$10,000 to \$20,000 WAGI class would experience the largest percentage decreases (over 36%).

- Taxpayers with WAGI of \$100,000 or less would comprise 85.1% of the taxpayers with a tax decrease and would receive 87.9% of the decrease.

- Taxpayers not experiencing a tax decrease would include those without a tax liability, those with a WAGI above the phaseout level for the deduction, and taxpayers with an itemized deduction credit decrease that exceeds their tax decrease attributable to the expanded standard deduction. An estimated 830 taxpayers may experience a tax increase estimated at \$12,830, or \$15 per taxpayer.

- Data in some cells is suppressed or rounded to protect taxpayer confidentiality.

Source: Department of Revenue simulation of tax year 2020.

**ATTACHMENT 2**

**Distribution of Taxpayers with a Tax Decrease Under SB 18 Proposal to Expand the Sliding Scale Standard Deduction  
Married Joint Filers, Tax Year 2020**

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease						Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Decrease	Percent of Decrease	Decrease in Net Tax	Average Decrease		
Under \$5,000	5,460	0.70%	-\$51,060	0.03%	-8.23%	-\$9	81,020	6.7%
5,000 to 10,000	3,700	0.47	-94,180	0.05	-8.75	-25	28,250	13.1
10,000 to 15,000	2,800	0.36	-130,900	0.07	-9.57	-47	27,730	10.1
15,000 to 20,000	2,400	0.31	-160,040	0.09	-10.19	-67	26,050	9.2
20,000 to 25,000	4,290	0.55	-305,000	0.17	-14.55	-71	28,050	15.3
25,000 to 30,000	14,690	1.87	-1,431,640	0.79	-37.95	-97	32,760	44.8
30,000 to 40,000	65,850	8.40	-12,791,400	7.08	-46.47	-194	72,520	90.8
40,000 to 50,000	70,250	8.97	-20,047,240	11.09	-29.37	-285	72,320	97.1
50,000 to 60,000	70,910	9.05	-21,731,680	12.03	-19.06	-306	72,560	97.7
60,000 to 70,000	72,400	9.24	-22,499,680	12.45	-13.72	-311	73,860	98.0
70,000 to 80,000	71,250	9.09	-22,058,010	12.21	-10.60	-310	72,480	98.3
80,000 to 90,000	69,440	8.86	-21,053,340	11.65	-8.46	-303	70,510	98.5
90,000 to 100,000	67,680	8.64	-19,358,640	10.71	-6.72	-286	68,630	98.6
100,000 to 125,000	145,120	18.52	-30,728,610	17.01	-3.97	-212	147,180	98.6
125,000 to 150,000	101,560	12.96	-8,104,130	4.49	-1.17	-80	103,100	98.5
150,000 to 200,000	15,700	2.00	-142,480	0.08	-0.12	-9	103,820	15.1
200,000 to 250,000	10	< 0.01	-790	< 0.01	-1.11	-79	44,700	< 0.01
250,000 to 300,000	10	< 0.01	-1,060	< 0.01	-0.96	-106	21,890	< 0.01
300,000 to 500,000	10	< 0.01	-1,570	< 0.01	-1.11	-157	30,650	< 0.01
500,000 and over							21,900	0.0
<b>Total</b>	<b>783,530</b>	<b>100.00%</b>	<b>-\$180,691,450</b>	<b>100.00%</b>	<b>-6.66%</b>	<b>-\$231</b>	<b>1,199,980</b>	<b>65.3%</b>

- An estimated 783,530, or 65.3% of married joint filers in tax year 2020, would experience a tax decrease under the bill.

- The total tax decrease for married joint filers is estimated at \$180.7 million in tax year 2020.

- For married joint taxpayers with a tax reduction, the average 2020 tax decrease would be \$231. The average tax decrease would increase as income rises, until reaching \$311 for taxpayers in the \$60,000 to \$70,000 WAGI class.

- For married joint taxpayers with a tax decrease, the decrease would average 6.66%. On average, taxpayers in the \$30,000 to \$40,000 WAGI class would experience the largest percentage decreases (over 46%).

- Married joint taxpayers with WAGI of \$100,000 or less would comprise 66.5% of the taxpayers with a tax decrease and would receive 78.4% of the decrease.

- Taxpayers not experiencing a tax decrease would include those without a tax liability, those with a WAGI above the phaseout level for the deduction, and taxpayers with an itemized deduction credit decrease that exceeds their tax decrease attributable to the expanded standard deduction. An estimated 310 married joint taxpayers may experience a tax increase estimated at \$5,290, or \$17 per taxpayer.

- Data in some cells is suppressed or rounded to protect taxpayer confidentiality.

Source: Department of Revenue simulation of tax year 2020.

**ATTACHMENT 3**

**Distribution of Taxpayers with a Tax Decrease Under SB 18 Proposal to Expand the Sliding Scale Standard Deduction  
Other Filers, Tax Year 2020**

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease						Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Decrease	Percent of Decrease	Decrease in Net Tax	Average Decrease		
Under \$5,000	9,690	0.81%	-\$110,590	0.07%	-12.88%	-\$11	373,610	2.6%
5,000 to 10,000	9,650	0.80	-274,190	0.17	-14.29	-28	180,120	5.4
10,000 to 15,000	58,790	4.88	-2,533,500	1.61	-42.54	-43	148,380	39.6
15,000 to 20,000	97,050	8.06	-7,542,540	4.79	-38.46	-78	134,430	72.2
20,000 to 25,000	125,880	10.46	-13,575,070	8.63	-31.01	-108	132,810	94.8
25,000 to 30,000	125,900	10.46	-19,092,190	12.13	-24.46	-152	128,300	98.1
30,000 to 40,000	230,520	19.15	-37,910,240	24.09	-15.09	-164	233,480	98.7
40,000 to 50,000	180,650	15.01	-30,232,880	19.21	-9.53	-167	182,620	98.9
50,000 to 60,000	129,530	10.76	-19,824,180	12.60	-6.35	-153	130,880	99.0
60,000 to 70,000	87,170	7.24	-11,966,770	7.60	-4.50	-137	88,100	98.9
70,000 to 80,000	54,690	4.54	-6,663,480	4.23	-3.31	-122	56,140	97.4
80,000 to 90,000	35,660	2.96	-3,723,460	2.37	-2.43	-104	37,030	96.3
90,000 to 100,000	24,340	2.02	-2,147,160	1.36	-1.79	-88	25,320	96.1
100,000 to 125,000	32,330	2.69	-1,778,600	1.13	-0.94	-55	34,020	95.0
125,000 to 150,000	1,640	0.14	-7,350	< 0.01	-0.07	-4	15,190	10.8
150,000 to 200,000	10	< 0.01	-890	< 0.01	-1.14	-89	12,700	0.1
200,000 to 250,000	---	---	---	---	---	---	5,510	0.0
250,000 to 300,000	---	---	---	---	---	---	2,950	0.0
300,000 to 500,000	---	---	---	---	---	---	4,370	0.0
500,000 and over	---	---	---	---	---	---	3,560	0.0
<b>Total</b>	<b>1,203,500</b>	<b>100.00%</b>	<b>-\$157,383,090</b>	<b>100.00%</b>	<b>-7.98%</b>	<b>-\$131</b>	<b>1,929,520</b>	<b>62.4%</b>

- An estimated 1,203,500, or 62.4% of other tax filers in tax year 2020, would experience a tax decrease under the bill.

- The total tax decrease for other filers is estimated at \$157.4 million in tax year 2020.

- For other taxpayers with a tax reduction, the average 2020 tax decrease would be \$131. The average tax decrease would increase as income rises, until reaching \$167 for taxpayers in the \$40,000 to \$50,000 WAGI class.

- For other taxpayers with a tax decrease, the decrease would average 7.98%. On average, taxpayers in the \$10,000 to \$15,000 WAGI class would experience the largest percentage decreases (over 42%).

- Other taxpayers with WAGI of \$100,000 or less would comprise 97.2% of the taxpayers with a tax decrease and would receive 98.9% of the decrease.

- Taxpayers not experiencing a tax decrease would include those without a tax liability, those with a WAGI above the phaseout level for the deduction, and taxpayers with an itemized deduction credit decrease that exceeds their tax decrease attributable to the expanded standard deduction. An estimated 520 taxpayers may experience a tax increase estimated at \$7,540, or \$15 per taxpayer.

- Data in some cells is suppressed or rounded to protect taxpayer confidentiality.

Source: Department of Revenue simulation of tax year 2020.



**AMERICANS FOR  
PROSPERITY**

**WISCONSIN**

**To:** Assembly Committee on Ways and Means and Senate Committee on Agriculture,  
Revenue and Financial Institutions  
**From:** Megan Novak, Legislative Director, Americans for Prosperity - Wisconsin  
**Date:** Tuesday, February 5, 2019  
**Subject:** Support for Tax Relief

Dear Members of the Assembly Committee on Ways and Means and Members of the Senate  
Committee on Agriculture, Revenue and Financial Institutions,

On behalf of Americans for Prosperity (AFP), we applaud Senate and Assembly leadership for  
bringing forth legislation that will put the \$588 million surplus back in the hands of hardworking  
Wisconsin taxpayers. AFP supports providing considerable tax relief to these taxpayers instead of  
increasing state government spending.

Assembly Bill 4 and its companion bill, Senate Bill 18, would increase the standard deduction for  
almost two million middle class filers. The median joint filer under this proposal will see over \$300  
in relief and joint filers earning between \$30,000 and \$40,000 would see their tax liability cut  
almost in half. This tax cut builds on the over \$8 billion in tax relief passed in Wisconsin since 2011,  
ensuring fewer barriers to individuals and businesses prospering across the state.

AFP thanks committee members for taking the time to consider and discuss this tax relief proposal  
and thanks Senate and Assembly leadership for introducing this legislation. We encourage  
committee members to continue supporting tax relief for Wisconsinites over increased government  
spending.

Sincerely,

Megan Novak  
Legislative Director  
Americans for Prosperity - Wisconsin



Metropolitan Milwaukee  
Association of Commerce

**DATE:** FEBRUARY 5, 2019

**TO:** ASSEMBLY WAYS AND MEANS COMMITTEE  
SENATE COMMITTEE ON AGRICULTURE, REVENUE AND FINANCIAL  
INSTITUTIONS

**FROM:** STEVE BAAS, SENIOR VP, GOVT. AFFAIRS AND PUBLIC POLICY  
METROPOLITAN MILWAUKEE ASSOCIATION OF COMMERCE

**RE:** AB 4

In its public policy agenda, "*The Blueprint for Economic Prosperity*," the Metropolitan Milwaukee Association of Commerce (MMAC) has consistently laid out creating a tax climate conducive to economic growth as one of its priorities. Over the past decade, Wisconsin has made tremendous progress in lowering business and individual tax burdens, getting our state out of the top 10 highest taxed states, and improving our economic competitiveness. AB 4, is a working-class tax cut that continues the momentum in lowering the tax burden on Wisconsin residents. Even though the benefit from this specific tax cut is unlikely to accrue individually to many of our members, we commend the bill's authors for looking for additional ways to return state surplus money to the hard-working taxpayers who generated that surplus.

We would like to submit the following observations on the bill and the public discussion that has accompanied its introduction. Particularly, we would like to express our grave concern over the suggestion by some that the bill be amended to fund this tax cut with revenues generated by a scaling back of the Manufacturing and Agriculture Activities Tax Credit (MAC).

The MMAC is a founding partner of the Milwaukee 7 (M7) regional economic development organization. The M7 travels the nation and the world working to attract jobs and investment to Wisconsin. In that work, it is no exaggeration to say that the MAC is the single most valuable arrow in our competitive quiver in attracting high-skill and high-wage manufacturing to Wisconsin. Raising taxes on manufacturers in the name of lowering taxes for workers would be a self-defeating strategy. Weakening the MAC would reduce our competitiveness, cost jobs, and, in the end, hurt exactly the working-class taxpayers AB 4 is designed to benefit.

Once again, we commend the legislature for the tremendous progress it has made in reducing Wisconsin's tax burden and increasing our economic competitiveness. Your efforts have been validated by the unprecedented growth in jobs and wages Wisconsin is currently experiencing. We urge you to continue your positive work in this area and resist calls to raise taxes on the very businesses that are fueling this economic renaissance in Wisconsin.

###

## Testimonial

Hello, we're Cory Holig and Abbie Holig Erickson and we are brother and sister dairy and crop farmers at Cattail Dairy Farms LLC in Mauston, WI. We first want to start out by thanking you for allowing us to speak to you about our farm's story. We currently manage a 3<sup>rd</sup> generation family farm here in the nation's dairy land. Our mother is currently owner of the LLC and the two of us and our brothers-in-law work together along with our 5 employees to care for and milk our 350 cows and 350 heifers. We also operate approximately 1,400 acres of corn, soybeans, wheat, and alfalfa hay to both feed our herd and sell. Our first farm was purchased by my late grandfather in 1954 and he and my grandmother milked 27 cows and worked 100 acres themselves. In 1979, my late father took over the farm just before marrying my mother – at that time, the farm had expanded to just over 100 milk cows. As siblings, we grew up on this farm and learned first-hand from our parents the ups and downs of the farming lifestyle and spent many hours before and after school milking cows, cleaning barns, feeding the calves and numerous other tasks. As we got older, we decided we wanted to pursue larger roles in the farm, so my parents made the decision to purchase another farm in 2009 to be able to expand to a 350 cow capacity in order to support our careers. Though this farm was newer, it required a complete cleanup and months of updating. Before working full-time for the farm, my sister and I both obtained four year degrees – mine was in crop and soil science from UW-Platteville and my sister's was in dairy science from UW- Madison. The same year I graduated, our father unexpectedly suffered a stroke and passed away a short time after. Our mother and family decided to continue on with the dairy operation and endured a quick learning curve without his knowledge and skills, but with the help of other farmer friends.

A goal we've always had in the back of our minds, besides taking the best care of our animals and land that we can, is to be an example for other farms. We enjoy exploring and implementing the many new technologies being developed in the dairy industry. On our farm, we have installed an automated calf feeder, wind and solar renewable power structures, and GPS with variable rate planting for our crops, to name a few. Obviously, updated technology dramatically increases



operating costs. Unfortunately, as many of you may know, the dairy industry has been severely struggling for the last few years. It is a constant worry and stress that even my own family has - wondering if there will be a future for us and the eight grandchildren currently in our family. Up to a point, becoming more efficient, cutting input costs and working harder have helped, but will not be a long-term remedy. Economic ramifications have placed dairy farms in a precarious state.

Regarding the manufacturing and agriculture tax credits, every single dollar matters during these times just to keep the lights on or pay for that emergency service call on the tractor or for the vet to save a cow. In a time where cultural shifts and marketing tactics seem to be against the dairy industry and the agriculture industry in general, I would ask you not to create another road block for those farms, big or small, that would possibly benefit from these tax credits. Even if the milk and dairy markets were to turn around quickly this year, which is not likely, it will take many farmers years to pay back existing operating loans and debt that have recently accumulated at an alarming rate.

As you may be aware the dairy industry is vital to the success of our state's economy, pulling in over 43.4 billion dollars annually. In the time it will take for us to give this testimony, approximately \$400,500 from the dairy industry will fuel the state's economy. The financial domino effect that dairy farming, whether flourishing or struggling, has on local businesses is measurable. A wave of economic impact rolls across the entire state effecting veterinarians, construction industry, software companies, trucking firms, and processing plants to name a few. Family farms are closing their operations at accelerating yearly rates. Since 2008, 5,232 dairy farms have been lost in the state of Wisconsin. State tax revenue from farm closures are on a decreasing trend line. These statistics were provided by Dairy Farmers of Wisconsin, formerly known as the Wisconsin Milk Marketing Board. Anything that could help us needs to be available now more than ever. Thank you again for letting us speak today and we would ask that you think about the burdensome economic pressures that have fallen upon the dairy industry before making any decision that would impact us. We'll gladly do our best to answer any questions you have for us.



State of Wisconsin  
2019 - 2020 LEGISLATURE

LRBs0006/1  
JK:wlj&cde

ASSEMBLY SUBSTITUTE AMENDMENT ,  
TO ASSEMBLY BILL 4

1 AN ACT *to amend* 71.07 (5n) (c) 1., 71.07 (5n) (d) 2., 71.07 (9e) (aj) (intro.), 71.28  
2 (5n) (c), 71.28 (5n) (d) 2., 71.28 (5n) (d) 3. a. and 73.03 (73) (f) 1.; and *to create*  
3 71.07 (5m) (e), 71.07 (5me), 71.07 (5n) (d) 2m., 71.07 (9e) (ak), 71.10 (4) (gye) and  
4 71.28 (5n) (d) 2m. of the statutes; **relating to:** claiming the manufacturing and  
5 agriculture credit, increasing the earned income tax credit, creating the middle  
6 class tax relief credit, and sunsetting the working families tax credit.

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***Analysis by the Legislative Reference Bureau***

Currently, a person may claim a tax credit on the basis of the person's income from manufacturing or agriculture. This bill limits to \$300,000 the amount of income from manufacturing that a person may use as the basis for claiming the credit. The bill also provides that the aggregate amount of the credits that may be claimed by all partners of a partnership, all members of a limited liability company, and all shareholders of a tax-option corporation may not exceed \$22,500 in any taxable year.

The bill creates a new individual income tax credit for taxable years beginning in 2019. The credit is nonrefundable and may be claimed only up to the amount of the taxpayer's income tax liability. Under the bill, for a single individual or an individual who files as a head of household whose adjusted gross income is less than

\$80,000, for a married couple filing jointly whose combined AGI is less than \$125,000, or for a married individual filing separately whose AGI is less than \$62,500, the credit is equal to 10 percent of the claimant's net tax liability or \$100 (\$50 for married separate filers), whichever is greater. Net tax liability is a claimant's income tax liability after the application of most nonrefundable income tax credits. Under the bill, the credit phases out to zero as a single individual or head of household filer's AGI increases from \$80,000 to \$100,000. A similar phaseout occurs for a married joint filer whose combined AGI increases from \$125,000 to \$150,000 and a married separate filer whose AGI increases from \$62,500 to \$75,000. Also, under the bill, no new claims for the working families tax credit may be filed for a taxable year that begins after December 31, 2018.

Under the bill, for taxable years beginning after 2019, an individual who is eligible to claim the federal earned income tax credit may claim as a credit against Wisconsin taxes due 11 percent of the amount the claimant may claim under the federal credit if the claimant has one qualifying child with the same principal place of abode, 14 percent for two such qualifying children, and 34 percent for three or more such qualifying children. Currently, for Wisconsin purposes, an individual may claim 4 percent of the federal credit if the claimant has one qualifying child with the same principal place of abode, 11 percent for two such qualifying children, and 34 percent for three or more such qualifying children. The credit is refundable, which means that, if the amount of credit due the claimant exceeds his or her tax liability, the difference is refunded to the claimant by check.

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

1           **SECTION 1.** 71.07 (5m) (e) of the statutes is created to read:

2           71.07 (5m) (e) *Sunset.* No credit may be claimed under this subsection for  
3 taxable years beginning after December 31, 2018.

4           **SECTION 2.** 71.07 (5me) of the statutes is created to read:

5           71.07 (5me) **MIDDLE CLASS TAX RELIEF CREDIT.** (a) *Definitions.* In this  
6 subsection:

7           1. "Claimant" means an individual who is eligible to claim the credit under this  
8 subsection.

9           2. "Household" means a claimant and an individual related to the claimant as  
10 husband or wife.

1           3. "Net tax liability" means a claimant's income tax liability after he or she  
2 completes the computations for nonrefundable credits listed before s. 71.10 (4) (h).

3           (b) *Filing claims.* For taxable years beginning after December 31, 2018, and  
4 subject to the limitations provided in this subsection, a claimant may claim as a  
5 credit against the tax imposed under s. 71.02, up to the amount of those taxes, one  
6 of the following amounts:

7           1. If the claimant is single or files as a head of household and his or her adjusted  
8 gross income is less than \$80,000 in the year to which the claim relates, the greater  
9 of \$100 or an amount equal to 10 percent of his or her net tax liability.

10          2. If the claimant is single or files as a head of household and his or her adjusted  
11 gross income is at least \$80,000 but less than \$100,000 in the year to which the claim  
12 relates, an amount that is calculated as follows:

13           a. Calculate the value of a fraction, the denominator of which is \$20,000 and  
14 the numerator of which is the difference between the claimant's adjusted gross  
15 income and \$80,000.

16           b. Subtract from 1.0 the amount that is calculated under subd. 2. a.

17           c. Multiply the amount that is calculated under subd. 2. b. by 10 percent.

18           d. Multiply the amount of the claimant's net income tax liability by the amount  
19 that is calculated under subd. 2. c.

20          3. If the claimant is married and filing jointly and the sum of the claimant's  
21 adjusted gross income and his or her spouse's adjusted gross income is less than  
22 \$125,000 in the year to which the claim relates, the greater of \$100 or an amount  
23 equal to 10 percent of the married couple's net tax liability.

24          4. If the claimant is married and filing jointly and the sum of the claimant's  
25 adjusted gross income and his or her spouse's adjusted gross income is at least

1 \$125,000 but less than \$150,000 in the year to which the claim relates, an amount  
2 that is calculated as follows:

3 a. Calculate the value of a fraction, the denominator of which is \$25,000 and  
4 the numerator of which is the difference between the married couple's adjusted gross  
5 income and \$125,000.

6 b. Subtract from 1.0 the amount that is calculated under subd. 4. a.

7 c. Multiply the amount that is calculated under subd. 4. b. by 10 percent.

8 d. Multiply the amount of the married couple's net income tax liability by the  
9 amount that is calculated under subd. 4. c.

10 5. If the claimant is married and filing separately and his or her adjusted gross  
11 income is less than \$62,500 in the year to which the claim relates, the greater of \$50  
12 or an amount equal to 10 percent of his or her net tax liability.

13 6. If the claimant is married and filing separately and his or her adjusted gross  
14 income is at least \$62,500 but less than \$75,000 in the year to which the claim relates,  
15 an amount that is calculated as follows:

16 a. Calculate the value of a fraction, the denominator of which is \$12,500 and  
17 the numerator of which is the difference between the claimant's adjusted gross  
18 income and \$75,000.

19 b. Subtract from 1.0 the amount that is calculated under subd. 6. a.

20 c. Multiply the amount that is calculated under subd. 6. b. by 10 percent.

21 d. Multiply the amount of the claimant's net income tax liability by the amount  
22 that is calculated under subd. 6. c.

23 (c) *Limitations.* 1. No credit may be allowed under this subsection unless it  
24 is claimed within the period under s. 71.75 (2).

1           2. Part-year residents and nonresidents of this state are not eligible for the  
2 credit under this subsection.

3           3. Except as provided in subd. 4., only one credit per household is allowed each  
4 year.

5           4. If a married couple files separately, each spouse may claim the credit  
6 calculated under par. (b) 5. or 6., except a married person living apart from the other  
7 spouse and treated as single under section 7703 (b) of the Internal Revenue Code may  
8 claim the credit under par. (b) 1. or 2.

9           5. The credit under this subsection may not be claimed by a person who may  
10 be claimed as a dependent on the individual income tax return of another taxpayer.

11           (d) *Administration.* The department of revenue may enforce the credit under  
12 this subsection and may take any action, conduct any proceeding, and proceed as it  
13 is authorized in respect to taxes under this chapter. The income tax provisions in this  
14 chapter relating to assessments, refunds, appeals, collection, interest, and penalties  
15 apply to the credit under this subsection.

16           **SECTION 3.** 71.07 (5n) (c) 1. of the statutes is amended to read:

17           71.07 (5n) (c) 1. Partnerships, limited liability companies, and tax-option  
18 corporations may not claim the credit under this subsection, but the eligibility for,  
19 and the amount of, the credit are based on their share of the income described under  
20 par. (b). A partnership, limited liability company, or tax-option corporation shall  
21 compute the amount of credit that each of its partners, members, or shareholders  
22 may claim and shall provide that information to each of them. Partners, members  
23 of limited liability companies, and shareholders of tax-option corporations may  
24 claim the credit in proportion to their ownership interests. For taxable years  
25 beginning after December 31, 2018, the aggregate amount of the credits that may be

1 claimed by all partners of a partnership, all members of a limited liability company,  
2 and all shareholders of a tax-option corporation may not exceed \$22,500 in any  
3 taxable year.

4 **SECTION 4.** 71.07 (5n) (d) 2. of the statutes is amended to read:

5 71.07 (5n) (d) 2. For Except as provided in subd. 2m., for purposes of  
6 determining a claimant's eligible qualified production activities income under this  
7 subsection, the claimant shall multiply the claimant's qualified production activities  
8 income from property manufactured by the claimant by the manufacturing property  
9 factor and qualified production activities income from property produced, grown, or  
10 extracted by the claimant by the agriculture property factor.

11 **SECTION 5.** 71.07 (5n) (d) 2m. of the statutes is created to read:

12 71.07 (5n) (d) 2m. For taxable years beginning after December 31, 2018, for  
13 purposes of determining a claimant's eligible qualified production activities income  
14 from manufacturing under this subsection, the claimant shall multiply the  
15 claimant's qualified production activities income, not exceeding \$300,000, from  
16 property manufactured by the claimant by the manufacturing property factor.

17 **SECTION 6.** 71.07 (9e) (aj) (intro.) of the statutes is amended to read:

18 71.07 (9e) (aj) (intro.) For taxable years beginning after December 31, 2010,  
19 and before January 1, 2020, an individual may credit against the tax imposed under  
20 s. 71.02 an amount equal to one of the following percentages of the federal basic  
21 earned income credit for which the person is eligible for the taxable year under  
22 section 32 (b) (1) (A) to (C) of the Internal Revenue Code:

23 **SECTION 7.** 71.07 (9e) (ak) of the statutes is created to read:

24 71.07 (9e) (ak) For taxable years beginning after December 31, 2019, an  
25 individual may credit against the tax imposed under s. 71.02 an amount equal to one

1 of the following percentages of the federal basic earned income credit for which the  
2 individual is eligible for the taxable year under section 32 (b) (1) of the Internal  
3 Revenue Code:

4 1. If the individual has one qualifying child who has the same principal place  
5 of abode as the individual, 11 percent.

6 2. If the individual has 2 qualifying children who have the same principal place  
7 of abode as the individual, 14 percent.

8 3. If the individual has 3 or more qualifying children who have the same  
9 principal place of abode as the individual, 34 percent.

10 **SECTION 8.** 71.10 (4) (gye) of the statutes is created to read:

11 71.10 (4) (gye) Middle class tax relief credit under s. 71.07 (5me).

12 **SECTION 9.** 71.28 (5n) (c) of the statutes is amended to read:

13 71.28 (5n) (c) *Limitations.* Partnerships, limited liability companies, and  
14 tax-option corporations may not claim the credit under this subsection, but the  
15 eligibility for, and the amount of, the credit are based on their share of the income  
16 described under par. (b). A partnership, limited liability company, or tax-option  
17 corporation shall compute the amount of credit that each of its partners, members,  
18 or shareholders may claim and shall provide that information to each of them.  
19 Partners, members of limited liability companies, and shareholders of tax-option  
20 corporations may claim the credit in proportion to their ownership interests. For  
21 taxable years beginning after December 31, 2018, the aggregate amount of the  
22 credits that may be claimed by all partners of a partnership, all members of a limited  
23 liability company, and all shareholders of a tax-option corporation may not exceed  
24 \$22,500 in any taxable year.

25 **SECTION 10.** 71.28 (5n) (d) 2. of the statutes is amended to read:



