Informational Paper 2

Individual Income Tax

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The state individual income tax is the major source of general fund tax revenue in Wisconsin. In fiscal year 2005-06, individual income tax collections totaled $6.14 billion and comprised 51% of state general fund tax revenue.

This paper is organized into five general sections. These sections include: (a) policy goals in structuring an income tax; (b) Wisconsin's income tax structure; (c) differences between 2006 state and federal tax structures; (d) historical tax collections information; and (e) distributional information for tax year 2005. Finally, an appendix is attached that summarizes the historical development of the Wisconsin individual income tax, including the recent changes made during the 2005-2006 legislative session.

Policy Goals in Structuring an Income Tax

Several principles of tax policy warrant consideration in structuring an individual income tax. A brief summary of some major goals of tax policy is presented below.

Equity. The tax structure should provide equal treatment of equals and include only reasonable differences in the taxation of unequals. The principle of horizontal equity would indicate that taxpayers with the same amount of economic income should pay the same tax. Economic income may be adjusted to reflect distinctions for a lesser ability to pay taxes due to unusual medical expenses and casualty and theft losses or to recognize the higher subsistence costs of taxpayers with large families.

The principle of vertical equity attempts to distinguish among taxpayers with different amounts of income. Under this principle, it is argued that taxpayers with larger incomes have a greater ability to pay taxes and should pay more tax. Various provisions within the tax system may be used to achieve vertical equity, including provisions to exempt from tax a certain amount of income through a low-income allowance, standard deduction, or tax credit, or to tax higher-income taxpayers at higher tax rates through a progressive tax rate and bracket structure.

Efficiency. The goal of efficiency in the tax structure is to generate tax revenue without creating tax incentives that could distort the allocation of resources, investment, consumption, or work effort in society. An efficient tax creates minimal incentives for taxpayers to either work more hours or choose more leisure time, to invest in certain activities in preference to others, or to save or consume based on tax considerations. Tax provisions that reduce work effort or favor one type of investment over another may eventually reduce the total output in the economy.

Simplicity. The goal of simplicity for tax policy is to provide a tax system where the burden and costs of administration and compliance by both the taxpayer and the government are minimal. The tax structure should be understandable to the taxpayer and convey certainty to the taxpayer regarding the collection of taxes and administrative rulings.

Redistribution. The tax system can be used to transfer resources from individuals to the government to meet the collective goals of society. The income tax, as a tax based on capacity to pay, can be utilized to channel tax relief to low-income taxpayers to relieve undue hardship.

Economic Stabilization. Individual income tax collections generally rise over time with economic growth and inflation. During periods of increasing inflation, the income tax automatically draws resources out of the economy through rising tax liabilities, which can reduce demand and help to stabilize prices. The growth in revenues from the income tax over time also provides additional flexibility for fiscal policy to respond to growth or to fluctuations in economic cycles by lowering taxes or by increasing government expenditures.

Various features of the state's individual income tax reflect these policy goals. By way of example, the state generally uses federal adjusted gross income as the starting point in determining state taxable income, to simplify taxpayer compliance. The tax rate and bracket structure and the sliding scale standard deduction introduce an element of progressivity into the income tax. Finally, tax credits and personal exemptions are used to adjust for the differing capacities of taxpayers to pay taxes.

Wisconsin's Income Tax Structure

Overview

There are several steps involved in calculating state income tax liability for tax year 2006. In brief, these steps are to: (a) determine Wisconsin adjusted gross income (AGI); (b) subtract the state's standard deduction and personal exemptions from AGI to find Wisconsin taxable income; (c) apply the state's tax rate and bracket schedule to taxable income to find the gross tax amount; (d) subtract applicable state tax credits from the gross tax amount to arrive at the tentative net tax; and (e) determine if the state alternative minimum tax applies and, if applicable, add the minimum tax amount to the tentative net tax to arrive at the net tax liability. Each of these steps is summarized in the following sections of this paper.

Wisconsin Adjusted Gross Income

The starting point to arrive at Wisconsin AGI is federal AGI, which is derived from federal gross income. Gross income is income from all sources, except those for which specific exclusions are provided. Examples of items included in gross income are: wages, salaries, and tips; interest and dividends; alimony received; business income and losses; capital gains and losses; pensions and annuities; rents, royalties, and partnership income; farm income and losses; unemployment benefits; and a portion of social security benefits.

Examples of items specifically excluded from gross income are: (a) transfer payments, such as veterans' benefits and cash public assistance; (b) gifts and inheritances; (c) qualified scholarships; (d) contributions by an employer to accident and health plans; (e) employer adoption and educational assistance programs; and (f) qualified distributions from Coverdell education savings accounts, health savings accounts (HSAs), and qualified tuition programs.

In addition to the exclusions from gross income described above, federal law provides preferential tax treatment for certain payments and retirement plan distributions received in connection with Hurricanes Katrina, Rita, and Wilma. For taxable years beginning after December 31, 2007, federal law also permits tax-free distributions from governmental retirement plans used to pay for health insurance of retired public safety officers, up to a maximum of $3,000 annually. At the time this paper was written, Wisconsin had not updated its tax laws to conform to these or other federal provisions enacted after December 31, 2004.

Once gross income is determined, federal law permits the following subtractions to arrive at federal AGI: contributions to a self-employed retirement plan; individual retirement account (IRA) contributions for taxpayers below certain income levels or not covered by a pension plan; qualified student loan interest; qualifying health savings account and medical savings account contributions; job-related moving expenses; one-half of the self-employment tax for social security and Medicare; health insurance for the self-employed; penalties on early withdrawals of savings; alimony paid; certain business expenses of military reservists, performing artists, and fee-basis government officials; jury duty pay given to the taxpayer's employer; and certain income from qualified domestic production activities.

In addition, in December, 2006, a federal deduction for up to $250 in qualified unreimbursed educator expenses of elementary and secondary school teachers was extended through tax year 2007. Wisconsin conformed to the educator expense deduction for tax year 2005. However, the state has not updated state tax references to conform to the federal extension of these provisions for tax years 2006 and 2007.

Wisconsin requires the following major modifications to federal AGI to arrive at Wisconsin AGI:

Social Security Benefits. Prior to tax year 1994, up to 50% of social security benefits was taxed for higher-income taxpayers under both federal and state law. The federal taxation of social security was modified under the Revenue Reconciliation Act of 1993, which increased the maximum amount of taxable social security benefits from 50% to 85%, beginning in tax year 1994. However, the pre-1994 provision was retained for state tax purposes, and applies for social security benefits received through tax year 2007, after which social security benefits will be completely exempt from state income taxes (as provided under 2005 Act 25, the 2005-07 biennial budget act).

Under the state provisions, through tax year 2007, for taxpayers with income exceeding certain thresholds, the taxable portion of social security is the lesser of: (a) one-half of net social security benefits; or (b) one-half of the amount by which provisional income exceeds a base amount. Provisional income is one-half of social security plus federal AGI, tax-exempt interest income, and amounts earned in a foreign country, U.S. possession, or Puerto Rico that are excluded from gross income. The base amounts are $25,000 for single taxpayers, $32,000 for married couples filing a joint return, and zero for married couples filing separate returns. If provisional income does not exceed the base amount, no social security benefits are taxable.

Under federal law, social security benefits are taxed under a two-tiered taxation scheme. The 1993 treatment continues to apply to single taxpayers with provisional income below $34,000 and married-joint taxpayers with provisional income below $44,000. Up to 50% of social security benefits is taxable for such taxpayers.

For taxpayers with provisional income above these higher thresholds, up to 85% of social security is taxable. The taxable portion of social security payments is the lesser of: (a) 85% of social security; or (b) the amount included under the 1993 law (not to exceed $4,500 for single taxpayers or $6,000 for married-joint taxpayers) plus 85% of the excess of provisional income over the applicable higher income thresholds. Married taxpayers who file separate returns are taxed on the lesser of 85% of social security or 85% of provisional income.

As noted, starting with taxable years beginning after December 31, 2007, social security benefits are completely exempt from the state income tax.

Federal/State Bond Interest. As required under federal law, interest from U.S. government securities is exempt from the state income tax. Interest from state and municipal obligations (including Wisconsin's) is generally taxable. However, specific state exclusions are provided for: (a) public housing authority or community development authority bonds issued by Wisconsin municipalities; (b) older

Wisconsin Housing Finance Authority bonds; (c) Wisconsin municipal redevelopment authority bonds; (d) Wisconsin higher education bonds; (e) certain Wisconsin Housing and Economic Development Authority (WHEDA) bonds issued before January 29, 1987; (f) certain public housing agency bonds issued before January 29, 1987, by agencies in other states; (g) bonds issued by the governments of Puerto Rico, Guam, the Virgin Islands, or, for bonds issues after October 16, 2004, the Government of American Samoa; (h) bonds issued by local exposition districts, local professional baseball park districts, local professional football stadium districts, and local cultural arts districts; (i) interest on WHEDA bonds issued to fund multifamily affordable housing or elderly housing projects; and (j) as provided under 2005 Wisconsin Act 335, interest income received on bonds or notes issued by the Wisconsin Aerospace Authority, effective April 29, 2006.

Deductions for Health Insurance. Under both federal and state laws, self-employed persons are entitled to deduct 100% of amounts paid for health insurance for themselves, their spouse and their dependents (to the extent that such premiums do not exceed net earnings from self-employment).

For tax years prior to 2006, state law also provides that employees who were not covered by employer-provided medical insurance could deduct 50% of health insurance costs. Effective starting with tax year 2006, as provided under 2005 Act 25, such employees may deduct 100% of health insurance premiums.

Act 25 also provided a deduction for medical insurance premiums paid by an individual with no employer and no self-employment income. This deduction is to be phased in over a three year period, beginning in tax year 2007, as follows: 33.4% of the cost of such premiums is deductible in tax year 2007, 66.7% of such premiums are deductible in 2008, and 100% of the cost of such premiums is deductible in tax year 2009 and thereafter.

Organ Donor Expenses. Under state law, medical expenses that are deductible as federal itemized deductions are generally allowable deductions for use in calculating the state's itemized deduction credit (described in this paper under "Tax Credits"). Federal law permits taxpayers who itemize deductions to deduct medical expenses exceeding 7.5% of adjusted gross income. Such allowable deductions include out-of-pocket surgical, hospital, laboratory, and certain transportation and lodging expenses of organ donors or possible organ donors. Meals and lost wages associated with organ donation are not included in calculating the credit.

Effective with tax year 2004, a Wisconsin resident may subtract up to $10,000 from federal AGI when computing Wisconsin AGI if the taxpayer, the taxpayer's spouse, or the taxpayer's dependent, while living, donates one or more organs to another human being for organ transplantation. The subtraction is allowed only for unreimbursed travel expenses, lodging expenses, and lost wages related to the organ donation. A subtraction for such expenses may only be claimed once and must be claimed in the year in which the organ transplantation occurs. The taxpayer may also include allowable organ donation expenses in calculating the itemized deduction credit, as described above.

Health Savings Accounts. Starting with tax year 2004, federal law exempts from taxation certain contributions to, and distributions from, a qualified health savings account. Under the federal provisions, an employee or another worker covered by a high-deductible health insurance plan (as defined under federal law) may make pre-tax contributions to an HSA to cover health care costs, subject to certain contribution limits that are indexed annually for inflation. The general limits are increased for individuals who are age 55 or older by the end of the tax year. An individual's employer may also make contributions to an HSA on behalf of an eligible individual; such contributions are excluded from the employee's income for federal tax purposes. HSA distributions are exempt from tax, as long as they are used to pay for qualified medical expenses of the account beneficiary. Earnings on amounts retained in HSAs are also exempt from tax.

In May of 2004, the Wisconsin Legislature approved legislation that would have adopted the federal health savings account provisions for state income tax purposes. However, as a result of a veto of the legislation by the Governor, the state does not currently conform to the federal HSA provisions. A similar provision that was included in the 2005-07 biennial budget bill as passed by the Legislature. The Governor deleted these provisions through a partial veto. Therefore, contributions to, and earnings on, HSAs that are exempt for federal tax purposes must be added back to federal AGI for state tax purposes. However, because the initial contributions to HSAs, and the earnings on such contributions, are subject to the state income tax, subsequent distributions from HSAs are not subject to tax at the state level.

Federal law authorizes the establishment of Archer Medical Savings Accounts (MSAs), which were precursors to HSAs. The federal provisions authorizing new MSAs were recently extended through calendar year 2007, after which no new MSAs may be established although accounts in existence at the time will be able to be maintained. State law conformed to the federal provisions for establishing MSAs through calendar year 2005, but has not been modified to conform to the new federal expiration date. Federal law allows MSAs to be rolled over to HSAs on a tax-free basis. As noted, state law has not conformed to the federal HSA provisions, and the state does not allow tax-free rollovers of MSAs to HSAs.

At the state level, medical expenses paid with HSA distributions are allowed in the computation of the Wisconsin itemized deduction credit. However, distributions from MSAs would generally be from contributions and earnings that had not been subject to Wisconsin tax. Therefore, medical expenses paid for with such distributions would not be allowed in the computation of the Wisconsin itemized deduction credit.

Unemployment Benefits. In tax year 1986, a limited exclusion for unemployment compensation benefits was provided under federal and state law. This exclusion, which was repealed under federal law beginning with the 1987 tax year, is retained for state tax purposes.

Under the state exclusion, if the sum of the taxpayer's unemployment compensation benefits and AGI is less than or equal to a base amount, then the entire benefit amount is excluded from income. The base amount is $12,000 for single taxpayers, $18,000 for married couples filing joint returns, and zero for married couples filing separate returns when the couple lived together at some point during the year. The base amount for single taxpayers applies in the case of married taxpayers filing separate returns who lived separately for the entire year. If the amount of benefits plus AGI exceeds the base amount, then the amount of unemployment compensation benefits includible in gross income is the lesser of: (a) one-half of the excess of the taxpayer's AGI, including benefits, over the base amount; or (b) the amount of the unemployment compensation benefits.

Capital Gains Exclusion. A capital gains exclusion is provided for 60% of the capital gain from the sale of assets held more than one year (except for gains realized on the sale of business assets to a family member, which is described below). Gains from assets held one year or less are fully taxed. The amount of capital losses that may be used to offset ordinary income is limited to $500 annually, with the remainder carried over to future years.

Capitals Gains Exclusion on Business Assets Sold to Family Members. A complete exclusion is provided for net long-term capital gains (a gain on assets held more than one year) realized on the sale of business assets and assets used in farming to an eligible family member. This provision took effect in tax year 1998. An eligible family member includes a person who is related by blood, marriage, or adoption within the third degree of kinship, which includes children, grandchildren, great grandchildren, parents, grandparents, brothers, sisters, nephews, nieces, uncles, and aunts.

Besides individuals, this exclusion also applies to shares in a corporation or trust that meet the same standards that allow a corporation or trust to carry on farming operations in the state. These standards provide that the corporation or trust may not have more than 15 shareholders or beneficiaries (except that one family may count lineal ancestors and descendants, aunts, uncles, and first cousins as one shareholder), that there are no more than two classes of shares, and that all shareholders or beneficiaries are natural persons.

A family member who purchases a business under this provision is required to retain ownership for at least two years. If the business assets are resold within two years, a penalty will be imposed equal to the amount of income tax that would have been imposed on the initial seller if the complete exclusion did not apply to the transaction, prorated according to the amount of time the assets were held.

Capital Gains Exclusion for Small Businesses. A special exclusion for long-term capital gains resulting from the sale of qualifying small business stock is provided under state law. To be eligible, the stock must be purchased after December 31, 1985, and must be held for at least five years. In addition, the business must have the following characteristics: (a) at least 50% of its payroll and property is located in Wisconsin; (b) it employs no more than 500 employees covered by state unemployment insurance, including the employees of any corporation that owns more than 50% of the business' stock; (c) it receives no more than 25% of its gross receipts from rent, interest, dividends, and sales of assets combined unless the amount is under $3,000 and the corporation has been incorporated less than two years; (d) it has not previously issued stock listed on the major stock or securities exchanges; and (e) it has not liquidated or reorganized for the purpose of using this tax exemption.

Two limitations to this exclusion apply to stock acquired after August 15, 1991: (a) the exclusion is available only to the original purchaser of stock at the time the business is incorporated; and (b) an exchange of stock for stock does not qualify for the exclusion.

Farm and Farm Investment Losses. There are state limits on the amount of net losses from the operation of, or investment in, a farming business that may be used to offset nonfarm income for persons who are not determined to be actively engaged in farming. The amount of offset allowed is reduced as nonfarm income is increased: the full amount is deductible for nonfarm income of less than $55,000 and no loss is allowed if nonfarm income exceeds $600,000. Farm losses disallowed as a deduction may be carried forward for 15 years. Table 1 presents the allowable losses and nonfarm AGI levels for single persons and married persons filing a joint return. For married taxpayers filing separate returns, the allowable losses are one-half of the amounts shown in Table 1.

Table 1: Farm Loss Limits for Persons Not Actively Engaged in Farming

Nonfarm AGI	Allowable Loss
$0 - $55,000	Full Amount
55,000 - 75,000	$20,000
75,000 - 100,000	17,500
100,000 - 150,000	15,000
150,000 - 200,000	12,500
200,000 - 250,000	10,000
250,000 - 300,000	7,500
300,000 - 600,000	5,000
600,000 and Over	No Loss

There are no limits on the amount of state farm losses that may be used to offset nonfarm income for persons who are determined to be actively engaged in farming, as defined under federal law. Under the applicable federal law, to be considered actively engaged in farming means that the individual or entity independently makes a significant contribution of capital, equipment or land, and personal labor or management to a farming operation. In addition, the individual or entity must have a share of profits or losses from the farming operation that is commensurate to their contribution and their contribution must be at risk.

Prior to the 1999 tax year, the farm loss limits applied to all taxpayers, regardless of whether the individual was determined to be actively engaged in farming. In addition, the amount of nonfarm income a taxpayer could have before no loss was allowed was increased from $400,000 to $600,000 beginning in 1999.

Depreciation. Federal and state laws provide deductions for depreciation, which allow taxpayers to recover, over a period of years, the cost of capital assets used in a trade or business for the provision of income. Wisconsin law generally conforms to the federal depreciation provisions under the Internal Revenue Code (IRC) in effect on December 31, 2000.

The federal Job Creation and Worker Assistance Act of 2002, P.L. 107-47, provided taxpayers with an additional first-year depreciation deduction equal to 30% of the adjusted basis of certain property acquired after September 10, 2001, and before September 14, 2004. The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27) increased the first-year depreciation bonus from 30% to 50% for property acquired after May 5, 2003. The 50% first-year depreciation provision applies for property acquired after May 5, 2003, and before January 1, 2005. State law did not conform to either of the federal first-year bonus depreciation provisions. However, 2005 Wisconsin Act 362 modified state provisions pertaining to certain depreciable property used in farming. Under Act 362, for property acquired and placed in service in tax years beginning on or after January 1, 2006, an individual that is "actively engaged in farming" (as defined in the federal code) may compute amortization and depreciation on property used in farming based on changes made to certain sections of the federal bonus depreciation provisions under P.L. 107-47 or P.L 108-27. This provision only applies in the case of federal law changes enacted after December 31, 2005, that revise the bonus depreciation provisions under the referenced federal laws.

Election to Expense Depreciable Assets. Federal and state laws provide special treatment with respect to depreciation of certain business expenses. Under section 179 of the IRC, a taxpayer may elect to expense certain business assets for federal tax purposes that would otherwise be treated as capital expenses and would be depreciated. State provisions relating to the expensing of depreciable assets under section 179 are referenced to the IRC in effect on December 31, 2002, which specified a maximum deduction of $25,000. However, federal modifications to section 179 in 2003, 2004, and 2006, resulted in an increase in the threshold for the maximum amounts that can be expensed under these provisions to $100,000, starting in tax year 2003. Federal law further provides that the limit is to be indexed for inflation annually through 2009, after which the limit returns to $25,000. State law does not conform to the federal changes after 2002.

Wisconsin Act 362 provided that, under certain conditions, an individual who is actively engaged in farming (as defined in the federal code) may follow federal section 179 expensing provisions in effect at the time for property acquired and placed in service in taxable years beginning on or after January 1, 2008. This provision only applies in the case of federal law changes enacted after December 31, 2005, that revise the section 179 expensing provision under specific sections of P.L. 108-27 or P.L.

108-357 (the American Jobs Creation Act of 2004).

For more information on the election to expense depreciable assets and on federal and state depreciation provisions, refer to the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income / Franchise Tax."

Disability Income. A taxpayer who meets certain requirements may exclude from gross income up to $100 of disability income per week, or $5,200 per year. In order to qualify for the exclusion the taxpayer must satisfy several criteria, including: (a) be under the mandatory retirement age set in the retirement program offered by the taxpayer's employer; (b) be under age 65; (c) have retired on disability and have been permanently and totally disabled at retirement; and (d) prior to 1984, did not choose to treat the disability income as a pension for tax purposes. The exclusion is reduced dollar-for-dollar for the amount the taxpayer's federal adjusted gross income is above $15,000.

Pension Benefits of Certain Public Employees. All pension payments received by taxpayers who were members of, or retired from, certain public pension systems prior to 1964 may be excluded from taxation under state law. This exclusion applies to federal civilian or military retirement systems. In addition, benefits received under the following state and local retirement plans are eligible for this exclusion: (a) Milwaukee Public School Teachers' Annuity and Retirement Fund; (b) Wisconsin State Teachers' Retirement System; (c) Employers' Retirement System of the City of Milwaukee; (d) Milwaukee County Employees' Retirement System; (e) Sheriffs' Annuity and Benefit Fund of Milwaukee County; (f) Policemen's Annuity and Benefit Fund of Milwaukee; and (g) Firemen's Annuity and Benefit Fund of Milwaukee. Further, railroad retirement benefits are excluded from state taxation under federal law.

Military Benefits. Based on the 2003 Military Family Tax Relief Act (MFTRA), federal law provides the following federal tax benefits related to the military: (a) effective September 11, 2001, a 100% exclusion for the military death benefit (which was increased from $6,000 to $12,000), versus 50% under prior federal law; (b) in the case of uniformed and foreign service personnel serving on qualified official extended duty, an easing of a restriction on the exclusion for the gain from the sale of a residence, effective for home sales after May 6, 1997; (c) an exclusion from income received after November 10, 2003, for certain payments related to a loss on the sale of a residence; (d) clarification that certain dependent care assistance is a qualified military benefit and, therefore, excludable from income; (e) for tax years beginning after December 31, 2002, a deduction from income for travel expenses of members of the National Guard and Reserve when they travel away from home and must stay away overnight; and (f) an extension of certain tax benefits related to victims of terrorist attacks to astronauts killed in the line of duty, effective with deaths occurring after December 31, 2002.

With one exception, 2005 Act 25 provided that the MFTRA provisions apply for Wisconsin purposes at the same time as for federal purposes. The MFTRA deduction for travel expenses of members of the National Guard and Reserve, which took effect for federal purposes for tax years beginning after December 31, 2002, was adopted for state tax purposes effective for tax years beginning after December 31, 2004.

The Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, enacted October 28, 2004, also provided a federal exclusion from gross income for members of the military for travel benefits donated to them. This exclusion is also allowed under state tax provisions.

In addition, P.L. 109-227, the Heroes Earned Retirement Opportunities Act of 2005 (HEROA), provided that members of the armed forces serving in combat zones may make contributions to an IRA even if the compensation on which such contributions are based is excluded combat zone pay. These provisions apply for federal purposes for taxable years beginning after December 31, 2003. State tax references have not been updated to conform to this federal provision.

Military Pay. Wisconsin law conforms to a federal income tax exclusion for military pay earned while serving in a combat zone. In addition, Wisconsin law provides that a member of a reserve component of the armed forces that has been called into active federal service or special state service may deduct all income paid by the federal government for such service, whether or not the service occurs in a combat zone. This deduction, which took effect January 1, 2004, applies in the case of the following: (a) members of the Wisconsin National Guard who have been mobilized for special state service by the federal government; and (b) members of the Wisconsin Reserves and National Guard who have been mobilized by the federal government to active duty. The deduction does not apply to pay received by reservists during regular weekend and two-week annual training sessions. A person who claims the deduction may not claim the state income tax credit for military income, which was modified under 2005 Act 25 and is described in this paper under "Tax Credits."

Military Pensions. Effective with tax year 2002, the state provides an income tax exclusion for all federal uniformed services retirement benefits, including benefits to survivors.

Moving Expenses. Under state law, job-related moving expenses may not be deducted for moves out of Wisconsin.

Adoption Expenses. Since 1996, state law has allowed a deduction for up to $5,000 in adoption expenses. The deduction may be taken during the tax year that a final order of adoption has been entered by a Wisconsin court, for adoption expenses incurred in that tax year and the two prior tax years. Allowable expenses include adoption fees, court costs, and legal fees related to the adoption of a child for whom a final order of adoption is entered.

Federal law has provided an adoption expense credit equal to $5,000 ($6,000 for the adoption of a special needs child) since tax year 1997. Effective with tax year 2002, the federal credit was increased to up to $10,000 of qualified adoption expenses per child. The credit is indexed annually for inflation; for tax year 2006, the maximum credit is $10,960. In the case of a special needs adoption, the maximum credit amount applies regardless of whether the taxpayer has qualified adoption expenses. Unused credits may be carried forward for five years.

Wisconsin Section 529 College Savings Programs. The Wisconsin Section 529 program offers two college savings options that meet federal standards for a qualified state tuition program. The first program is the college tuition and expenses program, under which an individual may purchase "tuition units" for a designated beneficiary. This program was started in 1997, and is administered by the State Treasurer's office with investments managed by the State of Wisconsin Investment Board. The second program is the college savings account program, made up of the EdVest and Tomorrow's Scholar college savings plans, under which individuals contribute to a college savings account for a designated beneficiary (rather than purchasing tuition units). The savings account program is managed by an 11-member College Savings Program Board, and began offering accounts in 2001.

While both types of college savings programs continue to be authorized by state statute, the State Treasurer's office closed the tuition unit option to all new investments, effective December 20, 2002. Instead, EdVest and Tomorrow's Scholar are now offering a wider variety of investment options through the newer, more flexible college savings account program.

For state tax purposes, effective with tax year 2001, donors may deduct up to $3,000 in contributions to an EdVest or Tomorrow's Scholar account if the beneficiary is the purchaser, the purchaser's spouse, or the purchaser's dependent child. Under 2001 Wisconsin Act 109, the deduction for contributions to EdVest programs was extended to grandparents of a beneficiary, effective with tax year 2002. Under 2003 Wisconsin Act 289, effective January 1, 2004, the deduction for contributions was again extended, this time to include contributions by great-grandparents, aunts, and uncles of account beneficiaries.

Wisconsin has provided an income tax exemption for Wisconsin Section 529 earnings and qualified distributions since 1997. Under the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA), the federal government adopted a similar exemption for earnings and distributions from any qualified state tuition program. EGTRRA also provided that, effective with tax year 2004, the exemption for earnings and distributions is extended to earnings and distributions from qualified tuition programs offered by private institutions in addition to state-sponsored plans. These federal provisions also apply for state purposes.

The Legislative Fiscal Bureau provides more information on these programs in the informational paper entitled, "Student Financial Aid."

Higher Education Tuition Expenses. Since tax year 1998, state law has allowed a deduction from income for tuition expenses. The deduction applies to tuition paid on behalf of the taxpayer or the taxpayer's dependent. Allowable tuition expenses include tuition paid to attend any university, college, technical college, or a school approved by the Education Approval Board that is located in Wisconsin or to attend a public vocational school or public institution of higher education in Minnesota under the Minnesota-Wisconsin tuition reciprocity agreement.

For tax years prior to 2005, the maximum tuition deduction was $3,000 per eligible student. Under 2005 Act 25, effective for taxable years beginning on or after January 1, 2005, the maximum deduction was increased to twice the average amount charged by the Board of Regents of the University of Wisconsin System at four-year institutions for resident undergraduate academic fees for the most recent fall semester. The maximum deduction was $4,244 for tax year 2005, and is $4,536 for 2006.

The maximum deduction is phased out in specified ranges of federal AGI that vary with filing status. The phase-out ranges are as follows: (a) $50,000 to $60,000 for single and head-of-household filers; (b) $80,000 to $100,000 for married couples filing joint returns; and (c) $40,000 to $50,000 for married couples filing separate returns. The phase-out provisions were not modified under Act 25.

In December, 2006, a federal deduction for qualified higher education expenses, which had first applied to tax year 2002 and was scheduled to expire at the end of 2005, was extended through tax year 2007. The maximum federal deduction was $3,000 in 2002 and 2003 and is $4,000 for subsequent years. The deduction is subject to income limits. Wisconsin has not adopted the federal deduction for state purposes.

Long-Term Care Insurance. Premium costs paid by taxpayers for long-term care insurance for the taxpayer and his or her spouse are deductible from income. This provision took effect in tax year 1998.

Standard Deduction

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 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.

Table 2: Sliding Scale Standard Deduction for Tax Year 2006

Marital Status	Wisconsin AGI	Standard Deduction
Single	Less than $12,200	$8,460
	$12,200 to $82,700	$8,460-12.0% (WAGI-$12,200)
	Greater than $82,700	$0
Married, Joint	Less than $17,120	$15,240
	$17,120 to $94,175	$15,240-19.778% (WAGI-$17,120)
	Greater than $94,175	$0
Married, Separate	Less than $8,130	$7,240
	$8,130 to $44,736	$7,240-19.778% (WAGI-$8,130)
	Greater than $44,736	$0
Head-of-Household	Less than $12,200	$10,930
	$12,200 to $35,690	$10,930-22.515% (WAGI-$12,200)
	Greater than $35,690	Single Standard Deduction

As shown in Table 2, for 2006, a single taxpayer with Wisconsin AGI less than $12,200 has a standard deduction of $8,460; for single taxpayers with adjusted gross income in excess of $82,700, no standard deduction is provided. Married taxpayers filing a joint return with AGI less than $17,120 have a standard deduction of $15,240; if their AGI is greater than $94,175, no standard deduction is available. Married taxpayers filing separate returns have a standard deduction of $7,240 if their AGI is less than $8,130; if their AGI is greater than $44,736, no standard deduction is provided. Head-of-household taxpayers with AGI of less than $12,200 may claim a standard deduction of $10,930; no deduction is allowed if income exceeds $82,700.

Beginning in tax year 1999, the dollar amounts used in the standard deduction are indexed for annual changes in inflation, rounded to the nearest $10. However, no indexing adjustment was made to the standard deduction in 2000 because it was increased statutorily. The statutory increase provided a larger standard deduction than would have resulted under indexing. Indexing adjustments resumed with tax year 2001.

Personal Exemptions

Personal exemptions are subtracted from Wisconsin AGI, along with the standard deduction, to arrive at taxable income. A $700 personal exemption is provided for each taxpayer, the taxpayer's spouse, and for each individual claimed as a dependent under federal law.

An additional $250 exemption is provided for each taxpayer who has reached the age of 65 before the end of the tax year (two exemptions are provided if both the taxpayer and the taxpayer's spouse are 65 at the end of the year). Thus, for each taxpayer age 65 or over, the total exemption is $950.

Personal and senior exemptions were created in 1999 Wisconsin Act 9. Act 9 provided a personal exemption of $600 for 2000, with an increase to the current level of $700 for 2001 and thereafter. The senior exemption under Act 9 was $200 for 2000, with an increase to the current level of $250 for 2001 and thereafter. Prior to 2000, a $50 credit was provided for each dependent of the taxpayer and a $25 credit was provided for each taxpayer age 65 or over who met certain income limitations. No credit was provided for a taxpayer or spouse under the age of 65.

Tax Rates and Brackets

Wisconsin taxable income is multiplied by the applicable tax rates to arrive at gross tax liability. The tax rate structure is cumulative so that marginal tax rates apply only to income that falls within the appropriate bracket. For married taxpayers filing jointly in 2006, the first $12,210 of taxable income is taxed at 4.60%, the second $12,220 is taxed at 6.15%, the next $158,780 is taxed at 6.50%, and taxable income in excess of $183,210 is taxed at 6.75%.

Table 3 shows the tax rate and bracket schedules for tax year 2006. Prior to tax year 2000, the tax structure consisted of three tax brackets. The 1999-01 biennial budget modified the tax rate and bracket structure by creating a fourth income tax bracket and reducing the tax rates. The rates were reduced in two steps, first for tax year 2000 and then again for tax years 2001 and thereafter.

Table 3: Tax Rates and Brackets for Tax Year 2006

Filing Status	Taxable Income At Least	Taxable Income But Less Than	Gross Tax is Amount Below, Plus Tax Rate Percent Listed Applied to Amount of Income in Excess of First Column	
Single, Head-of-Household	$---	$9,160	$---	4.60%
	9,160	18,320	421	6.15
	18,320	137,410	985	6.50
	137,410 and over		8,726	6.75
Married, Joint	$---	$12,210	$---	4.60%
	12,210	24,430	562	6.15
	24,430	183,210	1,313	6.50
	183,210 and over		11,634	6.75
Married, Separate	$---	$6,110	$---	4.60%
	6,110	12,210	281	6.15
	12,210	91,600	656	6.50
	91,600 and over		5,817	6.75

Beginning with tax year 1999, the tax brackets are indexed annually for changes in inflation.

Tax Credits

Wisconsin provides a number of tax credits that may be subtracted from the gross tax liability. Unless noted, individual income tax credits are not refundable; thus, such credits can be used to reduce net tax liability to zero but the amount of the credit may not exceed tax liability.

Married Couple Tax Credit. In tax year 2006, two-earner families are eligible for a married couple credit equal to 3.0% of the earned income of the secondary wage earner, up to a maximum credit of $480. The married couple credit was increased under both the 1997-99 and the 1999-01 biennial budgets.

Earned income is defined as wages, salaries, tips, scholarships or fellowships, disability income treated as wages, other compensation, and net earnings from self-employment, reduced by certain amounts allowed as adjustments to gross income, such as qualified contributions to IRAs and self-employment retirement plans.

Itemized Deduction Tax Credit. If allowable itemized deductions exceed the sliding scale standard deduction, the excess amount is eligible for a tax credit of 5%. Allowable expenses for calculating the state credit generally conform to the expenses permitted as federal itemized deductions. These include: (a) charitable contributions; (b) medical expenses exceeding 7.5% of adjusted gross income; (c) interest expenses for a principal residence or a second home in Wisconsin; (d) interest expenses for property sold on a land contract; and (e) other interest expenses, except personal interest. Federal law also permits certain deductions for state and local taxes, casualty and theft losses, and certain miscellaneous expenses. These federal deductions are not allowed for purposes of computing the state's itemized deduction tax credit.

Property Tax/Rent Credit. The property tax/rent credit (PTRC) is equal to 12% of property taxes, or rent constituting property taxes, paid on a principal residence up to a maximum of $2,500 in property taxes for tax year 2000 and thereafter. The maximum credit is $300. Rent constituting property taxes is defined as 25% of actual rent if payment for heat is not included in rent or 20% of actual rent if payment for heat is included in rent.

The PTRC has been modified several times in recent years. From tax years 1989 through 1997, the credit was equal to 10% of the first $2,000 in property taxes, or rent constituting property taxes, for a maximum credit of $200. The credit was increased on a one-time basis in 1998 to 14% of the first $2,500 in property taxes or rent for a maximum credit of $350. The credit was subsequently eliminated for 1999 as part of the sales tax rebate legislation (1999 Wisconsin Act 10), and restored at the 12% rate in 2000 under 1999 Wisconsin Act 198.

Working Families Tax Credit. Taxpayers with Wisconsin AGI below $9,000 ($18,000 if married-joint) may claim a credit equal to their net tax liability. The credit phases out over the next $1,000 in income until eliminated when AGI exceeds $10,000 ($19,000 if married-joint). The credit eliminates state income taxes for single taxpayers with AGI below $9,000 and married couples filing joint returns with AGI below $18,000. The working families credit took effect in 1998. This credit is claimed by a relatively small number of taxpayers because most individuals and families at these income levels do not have a net tax liability due to the standard deduction, personal exemptions, and other credits.

Credit for Military Income. For tax years 2000 through 2005, active duty members of the U.S. Armed Forces were eligible for a credit of up to $200 for income received for military service received while stationed outside of the U.S. (including tax exempt combat zone income). A married couple was eligible for a credit of up to $400 if both spouses qualified. 2005 Act 25 increased the maximum credit to $300 ($600 if both spouses qualify), effective with tax year 2006. This credit may not be claimed by military reservists and National Guard members who claim an exemption for active duty pay received outside of a federal combat zone.

Earned Income Tax Credit. The earned income tax credit (EITC) is offered at both the federal and state levels as a means of providing assistance to lower-income workers. The state EITC is calculated as a percentage of the federal credit and the state uses federal definitions and eligibility requirements for purposes of the EITC, except that the state does not provide a credit to individuals without children or advance payments of the credit. Both the federal and state credits are refundable. If the credit exceeds the amount of tax due, a check is issued for the difference.

The credit is calculated based on family size, filing status, and on the amount of earned income (individuals without earned income are not eligible for the credit). Earned income includes wages, salaries, and self-employment income. In addition, the federal Working Families Tax Relief Act of 2004 provided that a taxpayer may choose to include combat pay that is otherwise excluded from gross income as earned income for purposes of calculating the earned income credit for tax years 2004 and 2005. This provision was extended through 2006 under P.L. 109-135, the Gulf Opportunity Zone Act of 2005 (GOZA), and through 2007 under P.L. 109-432, the Tax Relief and Health Care Act of 2006. State tax law automatically conforms to federal modifications in the definition of earned income for purposes of the EITC.

Earned income does not include interest earnings, social security, or welfare benefits. Individuals with more than a specified amount of disqualified income are not eligible for the credit. Disqualified income is interest (including tax-exempt interest), dividends, nonbusiness rents and royalties, net capital gains, and net passive income. For tax year 2006, the disqualified income threshold is $2,800; this amount is adjusted each year for changes in inflation.

The federal credit parameters for tax year 2006 are outlined in Table 4; the income and maximum credit amounts are adjusted each year for changes in inflation. The state credit percentages are: 4% for families with one child; 14% for families with two children; and 43% for families with three or more children. Based on the 2006 federal credit parameters shown in Table 4 and the state credit percentages, the maximum state credits for 2006 are: $110 for families with one child, $635 for families with two children, and $1,950 for families with three or more children. The maximum state credits change each year as the federal credit parameters are ad-

Table 4: 2006 Federal EITC Provisions*

	No Children	One Child	2 or More Children
Credit Percentage	7.65%	34.0%	40.0%
Maximum Credit Income	$5,380	$8,080	$11,340
Maximum Credit	412	2,747	4,536
Phase-Out Income	6,740	14,810	14,810
Phase-Out Rate	7.65%	15.98%	21.06%
Maximum Income	12,120	32,001	36,348

*For married-joint filers, the phase-out incomes and maximum income levels for 2006 exceed those shown above by $2,000.

justed for inflation.

More information on the EITC can be found in the Legislative Fiscal Bureau's informational paper entitled, "Earned Income Tax Credit."

Homestead Credit. A refundable homestead credit may be claimed by taxpayers if certain income and property tax/rent requirements are fulfilled. For property taxes or rent accrued in 2000 and thereafter, the homestead credit is limited to households with annual income of not more than $24,500. The income measure used, called household income, includes income that is taxable for Wisconsin income tax purposes and most types of nontaxable cash income. The first $1,450 of the property tax bill is considered in determining the amount of the credit for homeowners. For renters, 25% of rent, or 20% if heat is included, up to a maximum of $1,450 annually is considered. The amount of credit is determined by a formula. Households with incomes below $8,000 receive the maximum relief (80% of eligible property taxes). As income exceeds $8,000, the credit is reduced. The maximum credit is $1,160.

More detailed information on the homestead credit is presented in the Legislative Fiscal Bureau's informational paper entitled, "Homestead Tax Credit."

Farmland Preservation Tax Credit. The refundable farmland preservation credit is provided to owners of farmland that is protected by exclusive agricultural zoning or a preservation agreement with the state Department of Agriculture, Trade, and Consumer Protection. The credit is calculated with a formula that accounts for the claimant's property taxes and household income and the preservation agreement provisions, or zoning and planning provisions, that cover the farmland. Up to $6,000 of property taxes may be claimed. The maximum credit is $4,200 for certain claimants with income below $5,000. The credit is reduced as income rises above $5,000. For higher-income claimants, a minimum credit equal to 10% of eligible property taxes is provided.

To be eligible for the farmland preservation tax credit, a claimant must own at least 35 acres of state farmland and that farmland must have produced at least $6,000 of gross farm profits during the year or at least $18,000 in gross farm profits in the last three years combined. A claimant may not claim the farmland preservation tax credit in a tax year in which a homestead tax credit or a veterans and surviving spouses property tax credit is claimed.

Farmland Tax Relief Credit. The farmland tax relief credit is computed as a percentage of the first $10,000 of property taxes up to a maximum credit of $1,500. The reimbursement rate is determined annually by the Department of Revenue (DOR) at a rate that will distribute the funds available for credit payments in that year, which are equal to $15 million for claims filed plus undistributed amounts that were expected to be expended from the prior year.

The farmland tax relief credit is refundable and is funded from a sum sufficient appropriation from the segregated lottery fund. For tax year 2006, with $16.5 million available for distribution, DOR established the credit reimbursement rate at 23% of the first $10,000 in property taxes (up to the maximum allowable credit of $1,500).

The credit is subject to the same acreage and production requirements as those for the farmland preservation credit. The farmland tax relief credit can be claimed in addition to the farmland preservation tax credit; however, the maximum benefit from both credits may not exceed 95% of farm property taxes.

More detailed information on the farmland preservation and farmland tax relief credits is provided in the Legislative Fiscal Bureau's informational paper entitled, "Farmland Preservation and Tax Relief Credits."

Veterans Property Tax Credit. 2005 Act 25 provided, effective for taxable years beginning on or after January 1, 2005, a refundable credit against the individual income tax for property taxes paid by certain veterans and unremarried surviving spouses of veterans. The tax credit, which was modified under 2005 Act 72, is equal to real and personal property taxes paid on a principal dwelling by the following persons:

a. The unremarried surviving spouse of a person who died while on active duty in the U.S. armed forces and who was a resident of this state at the time of entry into service and at the time of death.

b. The unremarried surviving spouse of a person who: (1) served on active duty in the U.S. armed forces; (2) was a resident of this state at the time of entry into active service; (3) was a resident of this state at the time of death; (4) was at least 65 years of age at the time of death (or would have been 65 at the close of the year in which the death occurred); and (5) had a service-connected disability of 100%, based on related federal provisions.

c. The unremarried surviving spouse of a person who served in the National Guard or Reserves, who was a resident of this state at the time of entry and at the time of death, and who died in the line of duty while on active or inactive duty.

d. A person who served on active duty in the U.S. armed forces and: (1) was a resident of this state at the time of entry into that service; (2) is a resident of the state for purposes of receiving veterans benefits under Chapter 45 of the Wisconsin statutes; (3) is at least 65 years old; and (4) has a service-connected disability of 100% based on related federal provisions. For married-joint filers, an eligible veteran may claim the credit for the entire property tax imposed on the veteran's principal dwelling, rather than for the share of property taxes that reflects the veteran's ownership interest in the dwelling (which is 50% for property owned as marital property). For a married couple filing separate returns, an eligible veteran and an eligible spouse are each permitted to claim the veterans property tax credit based on their respective ownership interest in the veteran's principal dwelling.

The veterans property tax credit is not allowed if an individual or the individual's spouse files a claim for the PTRC, the farmland tax relief credit, the farmland preservation credit, or the homestead credit.

Supplement to Federal Historic Rehabilitation Credit. A 5% credit is provided for improvements made to rehabilitate certified historic structures. The credit may be claimed for depreciable nonresidential real property, residential rental property, and real property with a class life over 12.5 years. The definition of qualified rehabilitation expenditures under state law is based on a similar 20% credit provided for federal tax purposes. The credit is applicable to both individual and corporate tax liabilities. Unused credit amounts can be carried forward for 15 years and the basis of the property is reduced by the amount of the credit taken.

State Historic Rehabilitation Credit. A 25% income tax credit is available to natural persons for expenditures for the preservation or rehabilitation of eligible historic property. The maximum tax credit is $10,000. The property must be an owner-occupied personal residence, and cannot be actively used in a trade or business or be held for the production of income or sale in the course of the taxpayer's trade or business. In order to qualify for the credit, rehabilitation expenses must exceed $10,000 and the taxpayer cannot claim the state supplement to the federal historic rehabilitation credit for those expenses. The taxpayer must repay all or a portion of the credit if the property is sold or its historic features altered within five years.

Angel Investment Credit. The angel investment credit was created under 2003 Act 255, with clarifications and revisions provided under 2005 Acts 49 and 97. The angel investment credit first applied with respect to taxable years beginning on or after January 1, 2005.

The angel investment credit applies against the individual income tax, including the alternative minimum tax. The credit is equal to a claimant's bona fide angel investment (as described below) made directly in a qualified new business venture in a tax year. The 12.5% tax credit may be claimed in each taxable year for two years, beginning with the taxable year as certified by Commerce. The total credit is 25% of the amount invested. The maximum amount of a claimant's investment that may be used as the basis for the credit is $500,000 for each investment made directly in a certified business. Unused credit amounts may be carried forward up to 15 years to offset future tax liabilities.

A bona fide angel investment is a purchase of an equity interest, or any other expenditure, as determined by rule by the Department of Commerce (Commerce), that is made by a person who reviews new businesses or proposed new businesses for potential investment of the person's money (or a network of such persons). For purposes of the credit, a person means a partnership or a limited liability company (LLC) that is a nonoperating entity (as determined by Commerce), an individual, or a fiduciary.

Partners and members of LLCs may claim the angel investment credit in proportion to their ownership interest or as specially allocated in the organizational documents of the partnership or LLC.

A qualified new business venture must be certified by Commerce. To be certified, a business must satisfy all of the following conditions: (a) it has its headquarters in Wisconsin; (b) at least 51% of its employees are employed in the state; (c) it is engaged in, or has committed to engage in, manufacturing, agriculture, or processing or assembling products and conducting research and development, or developing a new product or business process; (d) it is not engaged in real estate development; insurance; banking; lending; lobbying; political consulting; professional services provided by attorneys, accountants, business consultants, physicians, or health care consultants; wholesale or retail trade; leisure; hospitality; transportation; or construction; (e) it has fewer than 100 employees; (f) it has not been operating in Wisconsin for more than 10 consecutive years; (g) it has not received more than $1.0 million in investments that would qualify for angel investment tax credits; and (h) it has not received private equity investment in cash of more than $10 million before being certified.

The maximum aggregate amount of tax credits that may be claimed in each year is $3.0 million. The total aggregate amount of tax credits that may be claimed is $30 million. If a claimant holds an investment for which a credit is claimed for less than one year, the claimant is required to repay the amount of the credit to DOR.

Early Stage Seed Investment Tax Credit. Like the angel investment credit, the early stage seed investment tax credit was created under 2003 Act 255 and modified under 2005 Act 97. The early stage seed investment tax credit is a nonrefundable credit against the individual income and corporate income and franchise taxes, effective for taxable years beginning on or after January 1, 2005. The credit is equal to 25% of the claimant's investment paid to a fund manager that the fund manager invests in a certified qualified new business venture (defined as described above for the angel investment credit). Commerce determines the year in which a claimant may first claim the tax credit. Unused credit amounts may be carried forward up to 15 years to offset future tax liabilities. The credit may be claimed against the alternative minimum tax.

The aggregate amount of tax credits that may be claimed for investments paid to certified fund managers is $3.5 million per taxable year. The maximum total aggregate amount of tax credits that may be claimed for all years combined is $35.0 million. More detailed information on the early stage seed investment tax credit can be found in the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income / Franchise Tax."

Credit for Sales Tax on Fuel and Electricity Used in Manufacturing. For tax years beginning before January 1, 2006, business owners (sole proprietors, partners, and shareholders) could claim a tax credit for sales taxes on fuel and electricity used in manufacturing under the individual income tax. Shareholders and partners could claim the credit in proportion to their ownership interest in the business. The credit could only be claimed against the tax imposed on the business operations of the claimant in which the fuel and electricity are consumed. For shareholders and partners, the credit could only be claimed against their pro-rated share of income. Any unused credit amounts could be carried forward for up to 20 years. Prior to 1998, the credit was available to offset corporate income tax liability, but not for businesses that file under the individual income tax. The carry-over period was increased from 15 to 20 years under provisions included in 2003 Wisconsin Act 267, and applies retroactively to tax years beginning on or after January 1, 1998.

Under 2003 Wisconsin Act 99, the credit for sales tax on fuel and electricity used in manufacturing was repealed for tax years beginning after December 31, 2005. Act 99 provided, instead, a sales and use tax exemption for fuel and electricity consumed in manufacturing tangible personal property in Wisconsin, beginning January 1, 2006. Act 99 also allowed manufacturers meeting certain investment and employment criteria to claim unused sales tax credits from prior years. This treatment, which depends on the manufacturer's amount of unused credits, is effective for taxable years beginning on or after January 1, 2006.

More detailed information on the credit for sales tax on fuel and electricity used in manufacturing is provided in the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income / Franchise Tax."

Economic Activity Zone Credits. Wisconsin has numerous programs that provide tax credits to businesses for various types of economic activity in designated areas of the state. These programs include: (a) development zones; (b) enterprise development zones; (c) development opportunity zones; (d) technology zones; (e) an agricultural development zone; (f) airport development zones; and (g) enterprise zones. The Department of Commerce is generally authorized to designate or approve, and to administer the various zone programs. Each of these zone programs provides certain tax credits to eligible businesses operating in the zones. The credits are based on various types of expenditures and investments within the zones. Detailed information about these credits, which apply for the individual income tax as well as corporate income and franchise taxes, is provided in the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income / Franchise Tax."

Dairy and Livestock Farm Investment Credit. 2003 Act 135 created a dairy investment credit for taxable years beginning on or after January 1, 2004, and before January 1, 2010. 2005 Act 25 renamed the credit and expanded it to include amounts paid for non-dairy livestock farm modernization or expansion.

Under current law, there are two parts to the credit, one related to dairy farm modernization or expansion and one related to livestock farm modernization or expansion. Under the first component, a tax credit may be claimed for tax years that begin after December 31, 2003, and before January 1, 2010, equal to 10% of the amount paid by the claimant during the tax year for dairy farm modernization or expansion related to the operation of the claimant's dairy farm. Under the second component, for tax years that begin after December 31, 2005, and before January 1, 2012, a tax credit can be claimed equal to 10% of the amount paid by the claimant during the tax year for non-dairy livestock farm modernization or expansion related to the operation of the claimant's livestock farm.

The aggregate amount of dairy and livestock modernization tax credits that may be claimed by a taxpayer is $50,000. The credits cannot be claimed for any amounts also claimed as business expense deductions under section 162 of the IRC. Unused credit amounts can be carried forward up to 15 years to offset future tax liabilities.

A more detailed description of the dairy and livestock farm investment credit is provided in the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income / Franchise Tax."

Internet Equipment Credit. 2005 Wisconsin Act 479 created a sales tax exemption and related individual income and corporate income and franchise tax credits for certain Internet equipment used in the broadband market to provide Internet availability in areas of the state where there is no service provider. The Department of Commerce is required to certify businesses as eligible for the sales tax exemption and for related income and franchise tax credits, and to determine the maximum amount of tax credits and exemptions that a business can claim. Commerce can only allocate tax credits and exemptions to a business if the allocation of credits and exemptions is likely to increase the availability of broadband Internet service in areas of the state that are not served, or are served by only one broadband Internet service provider.

The sales tax exemption under Act 479 is for the gross receipts from the sale of and the storage, use, or other consumption of Internet equipment used in the broadband market. To receive the exemption, the purchaser must certify to Commerce, in a manner prescribed by the Department, that the business will, by June, 2009, make an investment that is reasonably calculated to increase broadband Internet availability in the state. A business may claim a tax credit against state individual and corporate income and franchise tax liability equal to the amount of the sales tax exemption for each of two tax years. The credit may be claimed in the first tax year following the year in which the business claimed the exemption. The credit is not refundable, but unused credit amounts may be carried forward up to 15 years to offset future tax liabilities. The total amount of Internet equipment sales tax exemptions and Internet equipment income and franchise tax credits that can be allocated to all eligible businesses cannot exceed $7.5 million.

The Internet equipment sales tax exemption takes effect on July 1, 2007. The individual and corporate income and franchise tax credits could first be claimed in tax years beginning on or after January 1, 2008.

For more information, please refer to the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income / Franchise Tax."

Film Production Credits. Provisions of 2005 Wisconsin Act 483 created both a film production services tax credit and a film production investment tax credit under the state individual and corporate income and franchise taxes, for tax years beginning after December 31, 2007.

The film production services tax credit is based on wages, production expenses, and sales and use taxes related to the production of a film in this state that has been accredited by the Department of Commerce for purposes of the tax credit. In order to claim the credit, a claimant is required to file an application with the Department of Commerce, and Commerce is required to approve the application and accredit the production for the purpose of claiming the tax credit. If Commerce accredits a production it must determine the amount of production expenditures that are eligible for the credit, which has both refundable and nonrefundable components (unused nonrefundable tax credits can be carried forward up to 15 years to offset future tax liabilities).

The film production company investment tax credit is a nonrefundable credit for certain amounts expended for depreciable tangible personal property or to acquire, construct, rehabilitate, remodel, or repair real property in order to establish a film production company in Wisconsin. The credit may be claimed for the first three tax years that the claimant does business in the state as a film production company, upon receiving certification from Commerce that the claims were for expenses related to establishing a film production company in the state.

A more detailed description of the film production credits is provided in the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income / Franchise Tax."

Health Insurance Risk-Sharing Plan (HIRSP) Assessments. 2005 Wisconsin Act 74 created a tax credit for health insurance risk-sharing plan assessments under the state individual and corporate income and franchise taxes and the state insurance premiums tax. HIRSP offers health insurance coverage to individuals with adverse medical histories and others who cannot obtain affordable health care coverage from the private sector. There are three sources of funding used to support HIRSP: (a) premiums paid by participants; (2) assessments on health insurance companies doing business in Wisconsin; and (3) a pro rata reduction in the billed charges of health care providers.

A tax credit is provided equal to a percentage of the amount of HIRSP assessments paid by an insurer in the calendar year in which the claimant's tax year begins. DOR, in consultation with the Office of the Commissioner of Insurance (OCI), is required to determine the credit percentage for each tax year so that the amount of income, franchise, and premiums tax credits awarded to all insurers is as close as practicable to $5 million in each state fiscal year. Unused tax credits can be carried forward up to 15 years to offset future income and franchise tax liabilities.

The tax credit could first be claimed for tax years beginning on or after December 31, 2005. However, the amount of tax credits that a claimant was awarded for tax years beginning after December 31, 2005, and before January 1, 2008, can first be claimed against income and franchise taxes imposed for tax years beginning on or after December 31, 2007, in a manner determined by DOR.

More information on this credit is provided in the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income / Franchise Tax."

Claim of Right Credit. A credit is provided if a taxpayer must repay income on which taxes were paid in the prior tax year. The credit may be claimed if the income repaid is greater than $3,000 and the repayment amount is not subtracted from AGI or used in calculating the itemized deduction tax credit.

Minimum Tax

The alternative minimum tax (AMT) is a means to ensure that at least a minimum amount of income tax is paid by individuals who have a large tax savings from the use of certain tax deductions and exemptions that are typically claimed by only higher-income taxpayers. A taxpayer's AMT is calculated by first determining alternative minimum taxable income (AMTI), subtracting any allowable exemption, and applying the AMT rate. The base for computing AMTI is regular taxable income, to which tax preference items are added (or recaptured). An exemption is provided to taxpayers with an AMTI below specified amounts and varies by filing status. Finally, the taxpayer's AMT liability is compared to their regular tax liability. If the AMT liability exceeds the regular tax amount, an AMT is owed equal to the difference.

For tax year 2006, tax preference items for federal and state tax purposes include: (a) certain depletion deductions; (b) certain excess intangible drilling costs; (c) the excess of a financial institution's deduction for reasonable bad debt; (d) tax-exempt interest on specific private activity bonds; (e) the excess of the accelerated deprecation deduction over the deduction allowed for straight-line depreciation for certain types of property; and (f) certain amortization costs associated with pollution control facilities placed in service before 1987.

As stated above, certain amounts pertaining to the accelerated depreciation deduction are treated as a tax preference item. However, federal law does not require the first-year depreciation bonus to be included in AMTI. At the state level, capital gain income that is excluded from Wisconsin's regular tax is not treated as a tax preference item and, as a result, is not included as part of Wisconsin AMTI.

The federal exemption amounts are not generally indexed for inflation, and had been at constant levels until they were increased for specified years under several federal laws passed since the end of 2000. The most recent increase in the federal AMT exemptions was provided under the Tax Increase Prevention Act of 2005, under which the exemptions for tax year 2005 are $62,550 for married-joint filers, $42,500 for single filers, and $31,275 for married taxpayers filing separate returns. Under current federal law, the federal exemptions return to their pre-2001 level after 2006. (The pre-2001 levels were $45,000 for married-joint filers, $33,750 for single filers, and $22,500 for married taxpayers filing separate returns.)

The state AMTI is generally based on federal AMTI and exemption amounts, adjusted for differences in state and federal law. However, Wisconsin has not conformed to the increased exemptions for tax year 2006. Instead, Wisconsin's exemption amounts for 2006 and thereafter are based on the federal exemption amounts in effect prior to tax year 2001.

Federal tax preferences that do not reflect a tax benefit under the regular state income tax are not treated as tax preferences for Wisconsin AMT purposes. A tax rate of 6.5% is applied to state AMTI after adjusting for the allowed exemption amount. The state minimum tax is owed only if AMT liability exceeds the liability under the regular state income tax.

Summary of Features of the Individual Income Tax

The major features in the calculation of federal and Wisconsin individual income taxes for 2006 are illustrated in Chart 1. Chart 1 shows the steps necessary to determine tax liability under federal and state law including the following major components: adjusted gross income, deductions, exemptions, tax rates and brackets, tax credits, and the alternative minimum tax.

CHART 1
Major Components in the Calculation of Federal and Wisconsin Income Taxes
Tax Year 2006

Key: Computation | Result

Compute Gross Income
• Wages, salaries, tips
• Interest and dividends
• Alimony received
• Business and capital gains / losses
• Pensions and annuities
• Rents, royalties, partnership income
• Farm income and losses
• Unemployment compensation
• Portion of social security

Gross Income

Subtract from Gross Income
• Self-employment tax and health insurance
• Contributions to IRA / Keogh / MSAs / HSAs
• Student loan interest
• Alimony paid
• Penalty on early withdrawal of savings
• Job-related moving expenses
• Business expense of reservists, performing artists, and fee-basis government officials

Federal AGI → **Apply Wisconsin Modifications** → **Wisconsin AGI**

Apply Wisconsin Modifications:

Add to federal AGI:
• Taxable state and municipal bond interest
• Farm and farm investment losses
• Expenses for moves out of Wisconsin
• Bonus depreciation and s. 179 expenses
• HSA and certain MSA contributions and earnings

Subtract from federal AGI:
• Federal / certain state bond interest
• Certain public employee pension benefits
• Capital gains exclusions
• Unemployment compensation
• Disability income
• Certain social security benefits
• Adoption expenses
• EdVest college savings program contributions
• Long-term care insurance premiums
• Higher education tuition expenses
• Organ donor expenses
• Certain health insurance premiums
• Military pensions
• Military reservists active duty pay

Federal	Wisconsin
Federal AGI	Wisconsin AGI
Exemptions & Deductions	Standard Deduction & Personal Exemptions
Federal Taxable Income	Wisconsin Taxable Income
Tax Rates 10% to 35%	Tax Rates 4.60% to 6.75%
Federal Gross Tax	Wisconsin Gross Tax
Tax Credits	Tax Credits
Federal Net Tax	Wisconsin Net Tax
Minimum Tax	Minimum Tax
Federal Total Tax	Wisconsin Total Tax

Federal Tax Credits:
• Elderly & disabled
• Child & dependent care
• Earned income
• General business credit
• Foreign tax
• Prior year minimum tax
• Mortgage interest
• Adoption expenses
• $1,000 per child
• Education
• Retirement savings contributions
• Residential energy

Wisconsin Tax Credits:
• Itemized deduction
• Property tax / rent
• Working families
• Married couple *
• Military income
• Homestead *
• Farmland preservation *
• Claim of right *
• Earned income *
• Historic rehabilitation
• Farmland tax relief *
• Angel investment*
• Early stage seed*
• Economic activity zones*
• Dairy and livestock investment*
• Veterans / spouse property tax credits*
• Film production credits
• Internet equipment credit*
• Tax paid to another state

*These credits are applied after the minimum tax. The homestead, farmland preservation, farmland tax relief, earned income, veterans / spouse property tax, and claim of rights credits are refundable if the credit exceeds taxes due.

Differences Between State and Federal Income Tax Structures

The federal income tax structure differs from Wisconsin's tax structure in several ways. The major differences in the definition of AGI have been described previously. This section highlights additional areas of difference between federal and state income taxes.

The treatment of itemized deductions varies significantly between the two systems. Federal law permits the deduction of payments of state and local income and property taxes as itemized deductions. In addition, under the American Jobs Creation Act of 2004, taxpayers could elect, in lieu of the federal itemized deduction for state and local income taxes, to take an itemized deduction for their state and local general sales tax, effective for tax years 2004 and 2005. This provision was extended through tax year 2007 under the Tax Relief and Health Care Act of 2006. A taxpayer electing to deduct sales taxes may either deduct actual sales tax paid, as evidenced by accumulated receipts, or an amount based on income as determined by the Internal Revenue Service.

In comparison, Wisconsin does not provide a deduction or credit for state and local income taxes or for sales taxes paid. In addition, rather than a deduction for property taxes, Wisconsin provides a property tax/rent credit for residential property taxes or rent constituting property taxes paid on a principal residence. Federal law allows other itemized deductions such as interest expenses, charitable contributions, and medical and dental expenses. With certain exceptions, the state includes these items as part of the 5% itemized deduction credit. However, the state's credit is not provided for miscellaneous deductions or casualty and theft losses, which are allowed under federal law.

In place of the flat standard deduction amounts of $5,150 for single taxpayers, $10,300 for married couples filing jointly, $5,150 for married-separate filers, and $7,550 for head-of-household filers under federal law in 2006, a sliding scale standard deduction is used under state law. The maximum state deduction is set at $8,460 for single taxpayers, $15,240 for married couples filing jointly, $7,240 for married-separate filers, and $10,930 for head-of-household filers, and phases out for higher-income taxpayers (for more information on the state standard deduction, refer to Table 2). If a person is blind or age 65 or over, the federal standard deduction is increased by $1,000 ($1,250 if single). [No state adjustment is provided for a taxpayer who is blind. A state adjustment for persons age 65 or over is part of the state personal exemption, rather than the standard deduction as is done at the federal level.]

Federal and state laws provide personal exemptions to account for differences in family sizes between taxpayers. The federal personal exemption is $3,300 for each taxpayer, spouse, and dependent in 2006. Wisconsin's personal exemption is $700 (plus an additional $250 for persons age 65 or over).

Under federal law, separate tax bracket schedules are used to differentiate the tax liabilities of single persons, married persons filing jointly, married persons filing separately, and heads of households. Wisconsin law, however, does not provide a separate tax bracket schedule for head-of-household filers.

For tax year 2006, federal tax rates are 10%, 15%, 25%, 28%, 33%, and 35%. Wisconsin's marginal tax rates are 4.60%, 6.15%, 6.50%, and 6.75% in 2006, although the effective top marginal tax rate may exceed this statutory level for taxpayers in the phase-out range of the state's sliding scale standard deduction.

At the federal level, net capital gains are generally fully taxable regardless of how long the assets were held. However, certain maximum tax rates on net capital gains apply. Currently, and for sales of assets through December 31, 2010, for taxpayers whose top marginal federal tax rate is 25% or higher, gains on assets held for more than one year are subject to a maximum marginal tax rate of 15%. In the case of taxpayers in the 10% and 15% federal tax brackets, the maximum marginal tax rate is 5% for sales through December 31, 2007, and 0% for sales during 2008 through 2010.

After 2010, the maximum marginal tax rates for long-term capital gains will revert to the rates in effect prior to May 6, 2003, which were 20%, generally, and 10% for taxpayers in the 15% tax bracket. Special lower rates of 18% and 8% (for individuals in the 10% or 15% brackets) were specified for certain sales of capital assets held for more than five years.

Under both rate structures, higher maximum tax rates apply to gains from certain types of assets, such as collectibles and qualified small business stock.

Under federal law, dividends received from domestic and qualified foreign corporations are taxed at the same rates that apply to capital gains. Wisconsin does not provide a lower maximum tax rate for capital gains or dividends. However, state law does provide an income tax exclusion for 60% of capital gains on assets held for more than one year from taxation. In addition, gains realized on the sale of a business to a family member and the sale of qualifying small business stock are completely excluded from taxation.

Historical Tax Collections Information

The annual amount of individual income taxes collected since 1995-96, the percentage change from year to year, and the share that individual income taxes comprised of state general fund tax revenues are shown in Table 5. As Table 5 indicates, individual income tax revenues rose from $4.18 billion in 1995-96 to $5.96 billion in 1999-00. Income tax collections decreased over the next two years, to $5.16 billion in 2000-01 and $4.98 billion in 2001-02. These decreases are primarily related to tax cuts adopted under the 1999-01 biennial budget act. However, tax collections in 2001-02 were also affected by the economic downturn. Income tax revenues increased by 1.5% in 2002-03, 4.5% in 2003-04, 7.1% in 2004-05, and 8.7% in 2005-06. Total collections in 2005-06 were $6.14 billion. The recent in income tax collections in largely the result of economic factors, rather than tax law changes.

Table 5: Individual Income Tax Collections ($ in Millions)

Fiscal Year	Individual Income Tax	% Change	Percent of State General Fund Tax Collections
1995-96	$4,183.6	6.4%	50.8%
1996-97	4,558.3	9.0	51.7
1997-98	5,047.5	10.7	53.0
1998-99	5,162.2	2.3	51.9
1999-00	5,962.0	15.5	54.5
2000-01	5,156.6	-13.5	51.2
2001-02	4,979.7	-3.4	49.7
2002-03	5,052.0	1.5	49.5
2003-04	5,277.1	4.5	49.1
2004-05	5,650.1	7.1	49.6
2005-06	6,144.3	8.7	51.1

Individual income tax collections comprised at least 50% of total general fund tax collections from 1995-96 through 2000-01. However, as shown in Table 5, income taxes were slightly less than 50% of general fund tax collections from 2001-02 through 2004-05, before rising again to 51.1% of tax revenues in 2005-06.

In 2003, 43 states had a state individual income tax. For information on the provisions of individual income taxes in other states, please refer to the Legislative Fiscal Bureau's informational paper entitled, "Individual Income Tax Provisions in the States."

Table 6: Aggregate Data on State Individual Income Tax Returns (Tax Year 2005)

Count of Returns	2,767,910
Count of Returns with Minimum Tax	5,135
Amount of Wisconsin Adjusted Gross Income	$121,711,832,182
Amount of Used Deductions and Exemptions	16,949,689,415
Amount of Taxable Income	104,762,142,767
Amount of Gross Tax	6,424,348,933
Amount of Used Credits	977,950,334
Amount of Net Tax Before Minimum Tax	5,446,398,599
Amount of Minimum Tax	6,171,813
Amount of Net Tax Including Minimum Tax	5,452,570,412
Average Tax Rate (Net tax divided by taxable income)	5.20%
Average Effective Tax Rate (Net tax divided by AGI)	4.48%

Source: 2005 Individual Income Tax Aggregate Data

Distributional Information for Tax Year 2005

Aggregate data from individual income tax returns filed for tax year 2005 are shown in Tables 6 through 11. Table 6 presents summary statistics on the count of returns and taxfilers, the income, deductions, and tax credits claimed, and the amount of tax paid. The aggregate data shown in these tables differs from the collections data in Table 5, because it reflects activity in tax year 2005, rather than for the state's fiscal year 2005-06.

The distribution of taxfilers by adjusted gross income class is shown in Table 7. For tax year 2005, 2.8 million taxfilers reported $121.7 billion in Wisconsin AGI. Of these taxfilers, approximately 2.0 million had a state individual income tax liability totaling $5.45 billion. The average tax liability was $2,716.

Table 8 presents information on the distribution by adjusted gross income class of gross tax liability, used credit amounts, the minimum tax, and the net tax liability (including the minimum tax). Gross tax liability of approximately $6.42 billion was reduced by $978.0 million of used tax credits. After adding back $6.2 million in liability from the minimum tax, the net tax liability was $5.45 billion.

The approximate distribution of selected used credits by type of credit is presented in Table 9. The used credit amounts are shown because these credits are nonrefundable (the amount of the tax credit may not exceed tax liability). The property tax/rent credit was the largest at $373.1 million. Other tax credits shown in the table include: the itemized deduction credit at a cost of $304.5 million; and the married couple tax credit of $268.5 million.

Table 7: Distribution of Wisconsin Adjusted Gross Income and Net Tax Liability by Adjusted Gross Income Class (Tax Year 2005)

	Adjusted Gross Income					Net Tax Liability (Including Alternative Minimum Tax)				
Total Adjusted Gross Income	Count	% of Count	Amount	% of Total	Average Amount	Count	% of Count	Amount	% of Total	Average Amount
Under $5,000	431,296	15.58%	$77,642,506	0.06%	$180	43,117	2.15%	$3,485,721	0.06%	$81
5,000-10,000	260,929	9.43	1,932,455,423	1.59	7,406	48,762	2.43	6,065,082	0.11	124
10,000-15,000	212,664	7.68	2,645,069,673	2.17	12,438	120,658	6.01	21,137,221	0.39	175
15,000-20,000	194,444	7.02	3,397,018,017	2.79	17,470	150,430	7.49	50,271,199	0.92	334
20,000-25,000	181,932	6.57	4,086,936,284	3.36	22,464	166,491	8.29	93,665,018	1.72	563
25,000-30,000	164,756	5.95	4,523,258,941	3.72	27,454	161,093	8.03	133,063,639	2.44	826
30,000-40,000	274,328	9.91	9,545,638,411	7.84	34,796	272,206	13.56	342,247,898	6.28	1,257
40,000-60,000	402,655	14.55	19,895,448,234	16.35	49,411	401,006	19.98	821,398,169	15.06	2,048
60,000-80,000	276,269	9.98	19,126,824,033	15.71	69,233	275,659	13.73	874,098,044	16.03	3,171
80,000-100,000	158,561	5.73	14,101,674,781	11.59	88,935	158,291	7.89	691,152,447	12.68	4,366
100,000-150,000	135,593	4.90	16,046,472,212	13.18	118,343	135,339	6.74	834,811,380	15.31	6,168
150,000-200,000	33,060	1.19	5,636,152,642	4.63	170,483	32,981	1.64	311,603,437	5.72	9,448
Over 200,000	41,423	1.50	20,697,241,025	17.01	499,656	41,355	2.06	1,269,571,157	23.28	30,699
Total	2,767,910	100.00%	$121,711,832,182	100.00%	$43,972	2,007,388	100.00%	$5,452,570,412	100.00%	$2,716

Table 8: Distribution of Wisconsin Gross Tax Liability, Used Credits, and Net Tax Liability by Adjusted Gross Income Class (Tax Year 2005)

Total Adjusted	Gross Tax Liability		Used Credit Amounts		Minimum Tax Liability		Net Tax Liability (Including Minimum Tax)	
Gross Income	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Under $5,000	$3,300,512	0.05%	$217,076	0.02%	$402,285	6.52%	$3,485,721	0.06%
5,000-10,000	6,976,317	0.11	1,003,983	0.10	92,748	1.50	6,065,082	0.11
10,000-15,000	31,405,526	0.49	10,318,180	1.06	49,875	0.81	21,137,221	0.39
15,000-20,000	68,680,388	1.07	18,478,184	1.89	68,995	1.12	50,271,199	0.92
20,000-25,000	119,899,512	1.87	26,277,418	2.69	42,924	0.70	93,665,018	1.72
25,000-30,000	162,930,531	2.54	29,967,758	3.06	100,866	1.63	133,063,639	2.44
30,000-40,000	409,954,258	6.38	67,773,228	6.93	66,868	1.08	342,247,898	6.28
40,000-60,000	995,143,399	15.49	173,962,573	17.79	217,343	3.52	821,398,169	15.06
60,000-80,000	1,072,166,308	16.69	198,201,364	20.27	133,100	2.16	874,098,044	16.03
80,000-100,000	847,720,809	13.20	156,643,227	16.02	74,865	1.21	691,152,447	12.68
100,000-150,000	989,229,873	15.40	154,812,238	15.83	393,745	6.38	834,811,380	15.31
150,000-200,000	353,879,751	5.51	42,662,345	4.36	386,031	6.25	311,603,437	5.71
Over 200,000	1,363,061,749	21.22	97,632,760	9.98	4,142,168	67.11	1,269,571,157	23.28
Total	$6,424,348,933	100.00%	$977,950,334	100.00%	$6,171,813	100.00%	$5,452,570,412	100.00%

Table 9: Distribution of Selected Used Credits by Type of Credit by Adjusted Gross Income Class (Tax Year 2005)

Total Adjusted	Property Tax/Rent		Itemized Deduction		Married Couple	
Gross Income	Amount	Percent	Amount	Percent	Amount	Percent
Under $5,000	$53,490	0.01%	$114,186	0.04%	$18,392	0.01%
5,000-10,000	621,977	0.17	216,301	0.07	41,268	0.02
10,000-15,000	9,307,387	2.49	747,996	0.25	78,377	0.03
15,000-20,000	16,502,020	4.42	1,318,707	0.43	220,960	0.08
20,000-25,000	22,616,499	6.06	1,974,741	0.65	1,352,945	0.50
25,000-30,000	23,551,074	6.31	2,738,742	0.90	3,230,274	1.20
30,000-40,000	46,293,004	12.41	8,230,335	2.70	12,157,401	4.53
40,000-60,000	85,387,594	22.89	28,565,897	9.38	57,189,223	21.30
60,000-80,000	68,542,770	18.37	49,801,566	16.35	77,110,296	28.72
80,000-100,000	42,321,655	11.34	58,827,759	19.32	53,539,173	19.94
100,000-150,000	37,505,957	10.05	68,551,066	22.51	45,838,142	17.07
150,000-200,000	9,157,136	2.45	22,517,183	7.39	9,401,654	3.50
Over 200,000	11,192,467	3.00	60,941,040	20.01	8,340,940	3.11
Total	$373,053,030	100.00%	$304,545,519	100.00%	$268,519,045	100.00%

Table 10 identifies the distribution of minimum tax liability by adjusted gross income class. The $6.2 million minimum tax in 2005 was paid by 5,135 taxpayers. The average minimum tax liability was $1,202.

The distribution of taxpayers by filing status and amount of gross income is shown in Table 11. Based on the 2005 aggregate data, single taxpayers (including single dependents and heads-of-households) comprised 58.5% of taxpayers who filed in 2005. Approximately 40.9% of taxpayers filed married-joint returns in 2005 and about 0.6% filed married-separate returns.

Table 10: Distribution of Minimum Tax Liability by Adjusted Gross Income Class (Tax Year 2005)

Total Adjusted Gross Income	Count of Taxpayers	Percent	Amount	Percent	Average Amount
Under $5,000	1,262	24.58%	$402,285	6.52%	$319
5,000-10,000	292	5.69	92,748	1.50	318
10,000-15,000	151	2.94	49,875	0.81	330
15,000-20,000	117	2.28	68,995	1.12	590
20,000-25,000	88	1.71	42,924	0.70	488
25,000-30,000	80	1.56	100,866	1.63	1,261
30,000-40,000	122	2.38	66,868	1.08	548
40,000-60,000	229	4.46	217,343	3.52	949
60,000-80,000	214	4.17	133,100	2.16	622
80,000-100,000	144	2.80	74,865	1.21	520
100,000-150,000	258	5.02	393,745	6.38	1,526
150,000-200,000	199	3.88	386,031	6.25	1,940
Over 200,000	1,979	38.54	4,142,168	67.11	2,093
Total	5,135	100.00%	$6,171,813	100.00%	$1,202

Table 11: Distribution of Taxpayers by Filing Status and by Adjusted Gross Income Class (Tax Year 2005)

Total Adjusted Gross Income	Total		Married Filing Jointly		Single		Single, Claimed as Dependent by Other		Head-of-Household		Married Filing Separately	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Under $5,000	431,296	15.58%	41,119	3.64%	237,770	20.97%	130,276	53.97%	19,865	8.11%	2,266	13.40%
5,000-10,000	260,929	9.43	28,139	2.49	128,090	11.30	77,324	32.03	25,590	10.45	1,786	10.56
10,000-15,000	212,664	7.68	37,046	3.28	120,868	10.66	23,460	9.72	29,508	12.05	1,782	10.54
15,000-20,000	194,444	7.02	45,126	3.99	109,800	9.69	6,389	2.65	31,269	12.77	1,860	11.00
20,000-25,000	181,932	6.57	44,672	3.95	102,212	9.02	1,920	0.80	31,373	12.81	1,755	10.38
25,000-30,000	164,756	5.95	44,345	3.92	91,844	8.10	755	0.31	26,254	10.72	1,558	9.22
30,000-40,000	274,328	9.91	93,116	8.23	144,033	12.70	582	0.24	34,254	13.99	2,343	13.86
40,000-60,000	402,655	14.55	233,777	20.67	135,180	11.92	388	0.16	31,100	12.70	2,210	13.07
60,000-80,000	276,269	9.98	227,914	20.15	37,811	3.34	107	0.04	9,738	3.98	699	4.13
80,000-100,000	158,561	5.73	143,726	12.71	11,602	1.02	72	0.03	2,902	1.18	259	1.53
100,000-150,000	135,593	4.90	125,120	11.06	8,312	0.73	51	0.02	1,910	0.78	200	1.18
150,000-200,000	33,060	1.19	30,023	2.65	2,433	0.21	23	0.01	519	0.21	62	0.37
Over 200,000	41,423	1.50	36,883	3.26	3,734	0.33	52	0.02	628	0.26	126	0.75
Total	2,767,910	100.00%	1,131,006	100.00%	1,133,689	100.00%	241,399	100.00%	244,910	100.00%	16,906	100.00%

APPENDIX

History of the Wisconsin Individual Income Tax

Development of the Tax Structure

In 1911, Wisconsin became the first state to adopt an individual income tax. Marginal tax rates ranged from 1% on the first $1,000 of taxable income up to 6% on taxable income in excess of $12,000. From 1911 to 1978, tax rates gradually increased and additional brackets were added to the tax structure. Since 1979, indexing of the individual income tax brackets expanded the bracket amounts in 1980, 1981, and 1982, while holding the top marginal tax rate at 10%. However, indexing adjustments were suspended for tax years 1983 through 1985.

The marital property reform act (1983 Wisconsin Act 186) and the 1985-87 biennial budget (1985 Wisconsin Act 29) made further changes in the state tax structure, effective in 1986. The marital property reform act established a joint income tax return structure to reflect the concept of taxing spouses as a single economic unit. In Act 29, the number of tax brackets was reduced and the top marginal rate was lowered to 7.9%.

The 1987-89 biennial budget (1987 Wisconsin Act 27) further reduced the number of tax brackets from four to three, lowered the top marginal rate to 6.93%, and deleted indexing.

The tax rates were reduced through two separate pieces of legislation during the 1997-99 legislative session so that the top tax rate was 6.77% beginning with the 1998 tax year. The 1997-99 biennial budget (1997 Wisconsin Act 27) also reintroduced indexing, beginning with tax year 1999.

The number of tax brackets was increased from three to four under the 1999-01 biennial budget (1999 Wisconsin Act 9) and the tax rates were reduced so that the top tax rate was 6.75% beginning in 2000. Act 9 also reduced the first three tax rates further for tax year 2001 and thereafter (the top rate remained at 6.75%).

In 1911, personal exemptions, which were deducted directly from income, totaled $800 for an individual, $1,200 for a married couple, and $200 for each dependent. With the conversion to credits in 1927, the personal exemption credit along with the standard deduction and itemized deductions determined the level of income at which a family began to pay taxes. In 1977, the low-income allowance and dependent deduction were provided to assure that low-income taxpayers would not be required to file a Wisconsin tax return if they were exempt from filing a federal tax return. Beginning in 1986, a sliding scale standard deduction based on filing status and income level replaced the standard deduction and low-income allowance. Finally, the working families tax credit was created beginning with the 1998 tax year.

Starting with tax year 2000, Wisconsin eliminated the dependent and senior credits and returned to personal exemptions, with an additional exemption being provided for taxpayers age 65 or over.

Table 12 charts the historical development of the Wisconsin tax rate and bracket structure. Changes in the personal exemption/credit, the standard deduction, low-income allowance, and working families credit are shown in Table 13.

Table 12: Historical Levels of Wisconsin's Individual Income Tax Rate and Bracket Structure

Taxable Income Bracket	1911-31	1932-52	1953-61	1962	1963-64	1965	1966-70	1971	1972-78
1st $1,000	1.00%	1.00%	1.00%	2.00%	2.30%	2.50%	2.70%	2.80%	3.10%
2nd 1,000	1.25	1.25	1.25	2.25	2.55	2.75	2.95	3.10	3.40
3rd 1,000	1.50	1.50	1.50	2.50	2.80	3.00	3.20	3.30	3.60
4th 1,000	1.75	2.00	2.50	3.50	3.80	4.00	4.20	4.30	4.80
5th 1,000	2.00	2.50	3.00	4.00	4.30	4.50	4.70	4.90	5.40
6th 1,000	2.50	3.00	3.50	4.50	4.80	5.00	5.20	5.40	5.90
7th 1,000	3.00	3.50	4.00	5.00	5.30	5.50	5.70	5.90	6.50
8th 1,000	3.50	4.00	5.00	6.00	6.30	6.50	6.70	6.90	7.60
9th 1,000	4.00	4.50	5.50	6.50	6.80	7.00	7.20	7.50	8.20
10th 1,000	4.50	5.00	6.00	7.00	7.30	7.50	7.70	8.00	8.80
11th 1,000	5.00	5.50	6.50	7.50	7.80	8.00	8.20	8.50	9.30
12th 1,000	5.50	6.00	7.00	8.00	8.30	8.50	8.70	9.00	9.90
13th 1,000	6.00	7.00	7.50	8.50	8.80	9.00	9.20	9.50	10.50
14th 1,000	6.00	7.00	8.00	9.00	9.30	9.50	9.70	10.00	11.10
15th 1,000	6.00	7.00	8.50	9.50	9.80	10.00	10.00	10.40	11.40
Over 15,000	6.00	7.00	8.50	10.00	10.00	10.00	10.00	10.40	11.40

1979 to 1985

Taxable Income Brackets				Marginal Tax Rates
1979	1980	1981	1982-85	1979 to 1985
$0 - $3,000	$0 - $3,300	$0 - $3,600	$0 - $3,900	3.4%
3,000 - 6,000	3,300 - 6,600	3,600 - 7,200	3,900 - 7,700	5.2
6,000 - 9,000	6,600 - 9,900	7,200 - 10,900	7,700 - 11,700	7.0
9,000 - 12,000	9,900 - 13,200	10,900 - 14,500	11,700 - 15,500	8.2
12,000 - 15,000	13,200 - 16,500	14,500 - 18,100	15,500 - 19,400	8.7
15,000 - 20,000	16,500 - 22,000	18,100 - 24,100	19,400 - 25,800	9.1
20,000 - 40,000	22,000 - 44,000	24,100 - 48,200	25,800 - 51,600	9.5
Over 40,000	Over 44,000	Over 48,200	Over 51,600	10.0

1986 to 1998

Taxable Income Brackets			Marginal Tax Rates		
Single	Married, Joint	Married, Separate	1986	1987-1997	1998
$0 - $7,500	$0 - $10,000	$0 - $5,000	5.0%	4.90%	4.77%
7,500 - 15,000	10,000 - 20,000	5,000 - 10,000	6.6	6.55	6.37
15,000 - 30,000	20,000 - 40,000	10,000 - 20,000	7.5	6.93	6.77
Over 30,000	Over 40,000	Over 20,000	7.9	6.93	6.77

1999

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $7,620	$0 - $10,160	$0 - $5,080	4.77%
7,620 - 15,240	10,160 - 20,320	5,080 - 10,160	6.37
Over 15,240	Over 20,320	Over 10,160	6.77

2000

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $7,790	$0 - $10,390	$0 - $5,200	4.73%
7,790 - 15,590	10,390 - 20,780	5,200 - 10,390	6.33
15,590 - 116,890	20,780 - 155,850	10,390 - 77,930	6.55
Over 116,890	Over 155,850	Over 77,930	6.75

Table 12: Historical Levels of Wisconsin's Individual Income Tax Rate and Bracket Structure (continued)

2001

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $8,060	$0 - $10,750	$0 - $5,380	4.60%
8,060 - 16,130	10,750 - 21,500	5,380 - 10,750	6.15
16,130 - 116,330	21,500 - 155,100	10,750 - 77,550	6.50
Over 116,330	Over 155,100	Over 77,550	6.75

2002

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $8,280	$0 - $11,040	$0 - $5,520	4.60%
8,280 - 16,560	11,040 - 22,080	5,520 - 11,040	6.15
16,560 - 124,200	22,080 - 165,600	11,040 - 82,800	6.50
Over 124,200	Over 165,600	Over 82,800	6.75

2003

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $8,430	$0 - $11,240	$0 - $5,620	4.60%
8,430 - 16,860	11,240 - 22,480	5,620 - 11,240	6.15
16,860 - 126,420	22,480 - 168,560	11,240 - 84,280	6.50
Over 126,420	Over 168,560	Over 84,280	6.75

2004

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $8,610	$0 - $11,480	$0 - $5,740	4.60%
8,610 - 17,220	11,480 - 22,960	5,740 - 11,480	6.15
17,220 - 129,150	22,960 - 172,200	11,480 - 86,100	6.50
Over 129,150	Over 172,200	Over 86,100	6.75

2005

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $8,840	$0 - $11,780	$0 - $5,890	4.60%
8,840 - 17,680	11,780 - 23,570	5,890 - 11,780	6.15
17,680 - 132,580	23,570 - 176,770	11,780 - 88,390	6.50
Over 132,580	Over 176,770	Over 88,390	6.75

2006

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $9,160	$0 - $12,210	$0 - $6,110	4.60%
9,160 - 18,320	12,210 - 24,430	6,110 - 12,210	6.15
18,320 - 137,410	24,430 - 183,210	12,210 - 91,600	6.50
Over 137,410	Over 183,210	Over 91,600	6.75

Table 13: Historic Levels of Personal Exemptions/Credits, Standard Deduction, Low Income Allowance and Working Families Credit

Personal Exemptions/Credits

	1911 Exemption	1925 Exemption	1927 Credit	1931 Credit	1953 Credit	1965 Credit	1971 Credit	1972 Credit	1974 Credit	1986a Credit	2000 Exemption	2001 & Thereafter Exemption
Individual	$800	$800	$8.00	$8.00	$7	$10	$12	$15	$20	$-0-	$600	$700
Married-Joint	1,200	1,600	17.50	17.50	14	20	24	30	40	-0-	1,200	1,400
Dependent	200	300	3.00	4.00	7	10	12	15	20	50	600	700
65 and Over	800	800	8.00	7.00	7	15	17	20	25	25	200	250

Standard Deduction and Low Income Allowance

	1911	1949	1962	1965	1971	1972	1973	1977	1979 to 1985
Minimum	-0-	-0-	-0-	$300	$475	$1,000	$1,300	$1,300 to $5,700b	$1,300 to $5,700b
Maximum	-0-	$450	$1,000	1,000	1,250	2,000	2,000	2,000	Single: $2,300; Married: $3,400
Percentage of Income	-0-	9%	10%	10%	11%	14%	15%	15%	-0- (Formula Based)

Sliding Scale Standard Deduction

	1986			1987			1988 to 1993		
	Single	Married-J	Married-S	Single	Married-J	Married-S	Single	Married-J	Married-S
Maximum Standard Deduction	$5,200	$7,200	$5,200	$5,200	$7,560	$3,590	$5,200	$8,900	$4,230
Phase-Out Income	7,500	10,000	4,750	7,500	10,000	4,750	7,500	10,000	4,750
Phase-Out Rate	12.0%	10.667%	10.667%	12.0%	12.5%	12.5%	12.0%	19.778%	19.778%
Maximum Income	50,830	77,500	36,810	50,830	70,480	33,470	50,830	55,000	26,140

	1994 to 1998				1999			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$5,200	$8,900	$4,230	$7,040	$5,280	$9,040	$4,300	$7,150
Phase-Out Income	7,500	10,000	4,750	7,500	7,620	10,160	4,830	7,620
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	50,830	55,000	26,140	25,000c	51,620	55,867	26,571	25,404c

	2000				2001			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$7,200	$12,970	$6,160	$9,300	$7,440	$13,410	$6,370	$9,620
Phase-Out Income	10,380	14,570	6,920	10,380	10,730	15,070	7,160	10,730
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	70,380	80,150	38,070	30,350c	72,730	82,872	39,367	31,460c

Table 13: Historic Levels of Personal Exemptions/Credits, Standard Deduction, Low Income Allowance and Working Families Credit (continued)

	2002			
	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$7,650	$13,770	$6,540	$9,880
Phase-Out Income	11,020	15,470	7,350	11,020
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	74,770	85,092	40,417	32,230c

Working Families Credit -- 1998 and Thereafter				
	Single	Married-J	Married-S	Head-of-Household
Phase-Out Income	$9,000	$18,000	$9,000	$9,000
Maximum Income	10,000	19,000	10,000	10,000

	2003			
	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$7,790	$14,030	$6,660	$10,060
Phase-Out Income	11,220	15,760	7,480	11,220
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	76,136	86,697	41,154	32,809 c

	2004			
	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$7,950	$14,330	$6,810	$10,270
Phase-Out Income	11,470	16,100	7,640	11,470
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	77,720	88,554	42,072	33,534c

	2005			
	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$8,170	$14,710	$6,990	$10,550
Phase-Out Income	11,770	16,520	7,850	11,770
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	79,853	90,895	43,192	34,404 c

	2006			
	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$8,460	$15,240	$7,240	$10,930
Phase-Out Income	12,200	17,120	8,130	12,200
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	82,700	94,175	44,736	35,690c

a The $25 senior credit was phased out for higher income taxpayers for tax years 1997 through 1999.
b The low income allowance and dependent deduction varied depending upon age, marital status, number of dependents, and income level and could have exceeded the maximum.
c Once head-of-household taxfilers reach the maximum income amount, the single standard deduction is claimed.

Income Tax Surcharges

Between 1918 and 1962, Wisconsin had a series of individual income tax surcharges for a number of purposes including: soldiers' cash bonuses; education, retirement old-age assistance, and health purposes; and emergency relief. The level of the surtax rose to a maximum of 60% of the normal tax between 1935 and 1942, but was substantially lower during nonwar periods. In 1983, the state imposed a 10% surtax on 1983 calendar year tax liabilities to compensate for slower state revenue growth during a recession. Table 14 shows the type and level of the various surcharges adopted over time on the Wisconsin individual income tax.

Income Tax Check-Offs

Wisconsin provides individual income tax check-off procedures on the income tax forms through which taxpayers may make donations for a variety of specified purposes. From 1983 through 2000, there was a single option for making charitable donations along with filing the individual income tax, in the form of a check-off for endangered resources. Starting in 2001, a check-off was added for donations for operation and maintenance of Lambeau Field in Green Bay. Since then, five additional check-offs have been added, including the following: breast cancer research donations, which took effect with tax year 2004; Veterans Trust Fund donations, effective starting with tax year 2005; and three check-offs that first apply for tax year 2006, including check-offs for donations to multiple sclerosis programs, the Fire Fighters Memorial, and for prostate cancer research. The following amounts were donated through individual income tax check-off procedures for tax year 2005: (a) $485,000 for endangered species; (b) $24,800 for Lambeau Field; (c) $277,400 for breast cancer research; and (d) $132,300 for the Veterans Trust Fund.

In addition, Wisconsin taxpayers may designate, through the individual income tax form, that $1 is to go to the Wisconsin Election Campaign Fund (WECF). For a married couple filing a joint return, each spouse may designate $1 to the fund. Unlike the check-offs for charitable donations, a designation for the WECF does not affect the amount of tax liability or tax refund. The opportu-

Table 14: Individual Income Tax Surcharges

Tax Year		
1918	1.	Soldiers' cash bonus surtax ($3,000 exempt).
1918-1922	2.	Soldiers' educational bonus surtax ($3,000 exempt-above $3,000 rates 1/6 of normal tax).
1920-1952	3.	Teachers' retirement fund surtax ($3,000 exempt-above $3,000 rates 1/6 of normal tax).
1931	4.	1932 emergency relief surtax--(on 1931 income-deductible dividends added back. Capital gains and losses eliminated. Rates same as normal tax).
1932	5.	1933 emergency relief surtax--(on 1932 income. Deductible dividends added back).
1933	6.	Surtax on 1933 deductible dividends.
1934	7.	1935 surtax on 1934 income deductible dividends added back. Losses allowable only to extent of gains.
1935-1942	8.	60% surtax, old age assistance--mothers' pensions--common school aids. Tax 60% of normal tax after deducting personal exemptions.
1947-1948	9.	Optional tax on gross receipts--not over $3,500 income.
1949-1952		--not over $5,000 income.
1949-1950	10.	25% construction and educational aids surtax. 25% of normal tax after exemptions.
1953-1961	11.	Optional tax on adjusted gross income.
1955-1958 and 1960-1961	12.	20% buildings, health, welfare, and education surtax. 20% of normal tax (including teachers' retirement fund surtax) after exemptions.
1959	13.	25% buildings, health, welfare, and education surtax. 25% of normal tax (including teachers' retirement fund surtax) after exemptions.
1983	14.	10% surtax on tax liabilities to provide revenues for general fund.

nity to make designations for the WECF through the income tax form has been available since 1977. More detailed information on this mechanism of funding the WECF is provided in the Legislative Fiscal Bureau's informational paper entitled, "Public Financing of Campaigns in Wisconsin."

Chronology of Modifications Since 1979

Chapter 1, Laws of 1979, significantly reduced the level of individual income tax collections in Wisconsin and recast the state tax structure through provisions to increase the standard deduction, repeal itemized deductions for state and local taxes, widen and index tax brackets and lower tax rates, and provide a property tax/rent credit.

In Chapter 20, Laws of 1981, the state's exclusion for net long-term capital gains was phased in over a three-year period beginning in tax year 1982: a 20% exclusion was provided in 1982, 40% in 1983, and 60% in 1984 and thereafter. The federal capital gains exclusion was repealed in the Tax Reform Act of 1986. However, the 60% state exclusion was retained under 1987 Wisconsin Act 27.

The conversion to joint tax returns for state tax purposes was adopted in 1983 Wisconsin Act 186.

In 1985 Wisconsin Act 29, individual income tax revenues were reduced by modifying the base of income subject to tax, the tax rates and brackets, the allowable tax credits and deductions, and the state minimum tax. Further changes were made to the tax base, rates and brackets, and minimum tax in 1987 Wisconsin Act 27.

In 1989 Wisconsin Act 31, the married couple credit was reduced and the property tax/rent credit was raised. Act 31 also provided one-time increases to the 1987 and 1988 school property tax/rent credits, paid to taxpayers in the form of a refund check that was sent out in April, 1990.

Under 1991 Wisconsin Act 39, the state earned income tax credit was modified to reflect the federal credit in effect under current law, and the state's $1,200 limit on other interest under the itemized deduction credit was eliminated, beginning in 1993. A separate 25% state deduction for medical care insurance costs of self-employed persons and employees who are not covered by an employer-maintained health insurance plan was established for tax year 1993 under 1991 Act 269; this deduction increased to 50% in 1994.

In 1993 Wisconsin Act 16, the head-of-household standard deduction was created, effective in tax year 1994. In addition, the deduction for medical insurance costs of self-employed individuals was increased to 100%, effective in tax year 1995. The deduction for employees remained at 50%. The separate state treatment of social security was established in 1993 Wisconsin Act 437, which retained references to the old federal IRC for purposes of the taxation of social security benefits.

The development zones tax credits programs were expanded in 1995 Wisconsin Act 27. A number of income tax deductions and exemptions were also created during the 1995 Legislative Session: (a) Wisconsin Act 261 created a deduction for adoption expenses; (b) Wisconsin Act 371 created an exemption for income received under a viatical settlement contract; (c) Wisconsin Act 453 created a deduction for contributions to an MSA, applicable when a broad-based federal program is enacted and certified by the Secretary of DOR; and (d) Wisconsin Act 403 created an exemption for earnings realized on contributions to a college tuition prepayment program.

A number of individual income tax changes were enacted as part of the 1997-99 biennial budget (1997 Act 27). Beginning with the 1997 tax year, the senior citizen credit was limited to lower-income seniors and the state provisions related to MSAs were repealed because the federal MSA program was adopted for state tax purposes. Effective with the 1998 tax year, the income tax rates were reduced, the working families tax credit was created, the married couple credit was increased (phased-in over a four-year period), a complete capital gains exclusion for the sale of a business to a family member was provided, a deduction for premiums paid for long-term care insurance was created, a credit was allowed for sales taxes paid on fuel and electricity used in manufacturing, and the development zones tax credits were consolidated. Act 27 also made two changes that took effect with the 1999 tax year: the standard deduction and tax brackets were indexed for changes in inflation and the limits on farm and farm investment losses that may be used to offset nonfarm income were repealed for persons actively engaged in farming.

The 1997-99 budget adjustment act (1997 Wisconsin Act 237) made the following changes, beginning with the 1998 tax year: (a) created a deduction for higher education tuition expenses; (b) reduced the income tax rates; and (c) adopted federal IRC changes, including the creation of the Roth IRA. Act 237 also provided for the one-time expansion of the property tax/rent credit for tax year 1998.

A significant number of modifications were made to the individual income tax during the 1999-01 legislative session. The biennial budget (1999 Wisconsin Act 9) increased the sliding scale standard deduction, created personal exemptions, provided an exemption for Nazi persecution restitution funds, created a fourth income tax bracket, reduced the income tax rates, eliminated miscellaneous deductions from the itemized deduction credit, increased the married couple credit, created a credit for military income received while serving overseas, eliminated the dependent and senior citizen tax credits, and expanded the homestead credit. These income tax modifications took effect with the 2000 tax year, except that the homestead credit expansion first applied to claims filed for property taxes or rent paid during tax year 1999.

The PTRC was repealed beginning with the 1999 tax year as part of the sales tax rebate legislation (1999 Wisconsin Act 10). However, the credit was later restored, beginning with tax years 2000 and thereafter, in 1999 Wisconsin Act 198.

1999 Wisconsin Act 44 created a deduction for certain contributions to EdVest college savings programs.

The 2001-03 biennial budget act (Act 16) provided an income tax exemption for all federal, uniformed services retirement benefits, effective with tax year 2002. In addition, new credits were provided for development zone capital investment and technology zones.

Under the 2001-03 biennial budget adjustment act (Act 109), the deduction for contributions by parents to EdVest programs was extended to grandparents of a beneficiary. Act 109 also updated Wisconsin references to the federal IRC for most federal law changes under the Community Renewal Tax Relief Act of 2000 and under the Economic Growth and Tax Relief Reconciliation Act of 2001. The major individual income tax changes under the IRC update were the increase in contribution limits to IRAs, temporary increases in the alternative minimum tax exemption, and the expansion of a number of educational assistance programs. However, Act 109 deleted provisions under prior law that had provided for automatic updates to federal law with respect to amortization and depreciation. As a result, such provisions can only be adopted for state tax purposes after action by the Legislature, as is the case with other federal law changes.

During the 2003-05 Legislative session, several new deductions and tax credits were enacted into law under non-budget legislation. Act 85 provided that interest on WHEDA bonds issued to fund multifamily affordable housing or elderly housing projects is exempt from tax. Act 119 created an individual income tax deduction for up to $10,000 for certain expenses related to human organ donation by a live donor. Under Act 183, a tax deduction was provided for military pay to reservists mobilized by the federal government, whether or not the service is in a combat zone. Act 289 expanded the $3,000 deduction for contributions by parents and grandparents to EdVest college savings programs to include contributions by great-grandparents, aunts, and uncles of a beneficiary. The modifications related to WHEDA bond interest, organ donation, military pay, and EdVest contributions were all effective with tax year 2004.

Three new tax credits were provided during the 2003-05 Legislative session. A new dairy investment credit was provided for tax years 2004 through 2009 under Act 135. The other two new credits, an angel investment credit and an early stage seed capital credit, were created under Act 255 and are effective with tax year 2005. In addition to providing the new tax credits, the Legislature also: (a) modified the technology zone tax credit under Act 72; (b) increased the carryover period for the credit for sales tax on fuel and electricity used in manufacturing under Act 267; and (c) provided, under Act 99, that the manufacturer's sales tax credit would be eliminated and replaced with a sales tax exemption, effective for taxable years beginning on or after January 1, 2006.

Under the 2005-07 biennial budget (2005 Act 25), state tax references were generally updated to the IRC in effect as of December 31, 2004. The individual income tax deduction for college tuition was increased, effective with tax year 2005, and scheduled to increase annually along with average tuition costs. The partial exemption for social security benefits was increased to a full exemption, starting in tax year 2008. Expansions to the existing deductions for medical insurance premiums were approved, to be phased-in over a four-year period beginning in tax year 2006. Act 25 increased an existing nonrefundable income tax credit for military income earned while stationed outside of the United States, effective with tax year 2006, and created in income tax check-off for donations to the Veterans Trust Fund. In addition, Act 25 created a refundable tax credit for property taxes paid by certain veterans and surviving spouses, effective with tax year 2005 (the credit was subsequently modified under 2005 Act 72). Finally, Act 25 also modified and expanded a number of business credits, including credits for development zones and the dairy investment credit (which was expanded to include non-dairy livestock).

Several additional business-related tax credits were modified and new credits were created under non-budget legislation during the 2005-07 legislative session as well. Revisions were made to the angel investment credit under Acts 49 and 97, both of which apply for taxable years beginning on or after January 1, 2005, and to the early stage seed investment credit under Act 97 (effective starting with tax year 2005). Development zone credits were expanded to include airport development zones under 2005 Act 487, effective for taxable years beginning on or after January 1, 2007. In addition, 2005 Act 361 created a new enterprise zone jobs credit, effective for taxable years beginning on or after July 1, 2007. A new credit for internet equipment used in the broadband market was created under 2005 Act 479, effective December 1, 2006, and 2005 Act 483 created two credits related to film production, both of which are effective for taxable years beginning on or after January 1, 2008. 2005 Act 74 created a tax credit for health insurance risk-sharing plan assessments, which is also effective for taxable years beginning on or after January 1, 2008.

In addition to the new and modified business tax credits, a new exemption was provided for interest income received on bonds or notes issued by the Wisconsin Aerospace Authority, effective April 29, 2006 (provided under 2005 Act 335). 2005 Act 362 modified existing laws related to depreciable property used in farming and to federal section 179 expensing (of business expenses that would otherwise be treated as capital expenses and depreciated) as they apply to farm business expenses of Wisconsin taxpayers. Act 362 specified that certain future changes to existing federal provisions on depreciation and section 179 would apply with respect to Wisconsin for individuals in the business of farming for tax years beginning on or after January 1, 2008, if the federal changes were made after December 31, 2005.

Finally, as noted, four new tax check-offs were created during the 2005-07 session. 2005 Act 25 created an individual income tax check-off for donations to the Veterans Trust Fund, starting with tax year 2005. The remaining three new check-offs all take effect for taxable years beginning on or after January 1, 2006, and include check-offs for donations to multiple sclerosis programs (2005 Act 71), the Fire Fighters Memorial (2005 Act 323), and for prostate cancer research (2005 Act 460).