State of Wisconsin
1999 – 2000 LEGISLATURE

LRB–1917/P2
MES:kmg:jf

RMR

DOA:......Gates–Hendrix – Eliminate certain tax credits; federalize soc. security and unemp. comp treatment and the stnd deduction; change income tax rates and brackets; delay indexing, withholding changes; create a personal exemption

FOR 1999–01 BUDGET — NOT READY FOR INTRODUCTION

Tonight, 1/20, if possible — ~~2001~~

don't gen

AN ACT ...; **relating to:** eliminating the school property tax credit, eliminating the working families tax credit, eliminating miscellaneous from the itemized deductions credit, federalizing the treatment of social security and unemployment compensation, federalizing the standard deduction, suspending the indexing of the standard deduction and individual income tax brackets, changing individual income tax rates and brackets and creating a personal individual income tax exemption.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

To be provided in a future version of the bill.

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

SECTION 1. 71.01 (16) of the statutes is amended to read:

71.01 **(16)** "Wisconsin taxable income" of natural persons means Wisconsin adjusted gross income less the Wisconsin standard deduction, less the personal exemption described under s. 71.05 (23) ~~(6) (b) 29.~~, with losses, depreciation, recapture of benefits, offsets, depletion, deductions, penalties, expenses and other negative income items determined according to the manner that income is or would be allocated, except that the negative income items on individual or separate returns for net rents and other net returns which are marital property attributable to the investment, rental, licensing or other use of nonmarital property shall be allocated to the owner of the property.

SECTION 2. 71.05 (6) (b) 8. of the statutes is repealed.

SECTION 3. 71.05 (6) (b) 21. of the statutes is repealed.

~~**SECTION 4.** 71.05 (6) (b) 29. of the statutes is created to read:~~

~~71.05 **(6)** (b) 29. A personal exemption of $700 for an individual who is required to file a return under s. 71.03 (2) (a) 1.~~ ~~and~~ or ~~2. and $700 for such an individual's spouse.~~ except for married people filing separately & married person filing as head of household

~~****NOTE: I'm not sure how you wanted to limit the personal exemption. I assumed you did not want it to be available to individuals for whom a taxpayer is entitled to an exemption under section 151 of the IRC. Although this subdivision is a subtract~~

71.05 (22)

make clear that married sep. only gets $700 modification in s. 71.05 (6) (b), Tom Reid and I think that, because of the amendment to the definition of "Wisconsin taxable income" in s. 71.01 (16), it will come after the standard deduction in the order of computation.

SECTION 5. 71.05 (22) (dm) of the statutes is amended to read:

71.05 **(22)** (dm) *Deduction limits; 1994 ~~and thereafter~~ to 1999.* Except as provided in par. (f), for taxable years beginning ~~on or after January 1, 1994~~ after December 31, 1993, and before January 1, 2000, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $7,500, the standard deduction is $5,200. For a single individual who has a Wisconsin adjusted gross income of at least $7,500 but not more than $50,830, the standard deduction is the amount obtained by subtracting from $5,200 12% of Wisconsin adjusted gross income in excess of $7,500 but not less than $0. For a single individual who has a Wisconsin adjusted gross income of more than $50,830, the standard deduction is $0. For a head of household who has a Wisconsin adjusted gross income of less than $7,500, the standard deduction is $7,040. For a head of household who has a Wisconsin adjusted gross income of at least $7,500 but not more than $25,000, the standard deduction is the amount obtained by subtracting from $7,040 22.515% of Wisconsin adjusted gross income in excess of $7,500 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of more than $25,000, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $10,000, the standard deduction is $8,900. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $10,000 but not more than $55,000, the standard deduction is the amount obtained by subtracting from $8,900 19.778% of aggregate Wisconsin adjusted gross income in excess of

$10,000 but not less than $0. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of more than $55,000, the standard deduction is $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $4,750, the standard deduction is $4,230. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $4,750 but not more than $26,140, the standard deduction is the amount obtained by subtracting from $4,230 19.778% of Wisconsin adjusted gross income in excess of $4,750 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of more than $26,140, the standard deduction is $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 6. 71.05 (22) (dp) of the statutes is created to read:

71.05 **(22)** (dp) *Deduction limits, 2000 and thereafter.* Except as provided in par. (f), for taxable years beginning after December 31, 1999, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $7,200. For a single individual who has a Wisconsin adjusted gross income of at least $10,380 but not more than $70,380, the standard deduction is the amount obtained by subtracting from $7,200 12% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a single individual who has a Wisconsin adjusted gross income of more than $70,380, the standard deduction is $0. For a head of household who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $9,300. For a head of household who has a Wisconsin adjusted gross income of at least $10,380 but not more than $30,350, the standard deduction is the amount obtained by subtracting from $9,300 22.515% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of more than $30,350, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $14,570, the standard deduction is $12,970. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $14,570 but not more than $80,150, the standard deduction is the amount obtained by subtracting from $12,970 19.778% of aggregate Wisconsin adjusted gross income in excess of $14,570 but not less than $0. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of more than $80,150, the standard deduction is $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $6,920, the standard deduction is $6,160. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $6,920 but not more than $38,070, the standard deduction is the amount obtained by subtracting from $6,160 19.778% of Wisconsin adjusted gross income in excess of $6,920 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of more than $38,070, the standard deduction is $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 7. 71.05 (22) (ds) of the statutes is amended to read:

71.05 **(22)** (ds) *Standard deduction indexing.* For taxable years beginning after December 31, 1998, and before January 1, 2000, and for taxable years beginning after December 31, 2000, the dollar amounts of the standard deduction that is allowable under ~~par.~~ pars. (dm) and (dp) and all of the dollar amounts of Wisconsin adjusted gross income under ~~par.~~ pars. (dm) and (dp) shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.

SECTION 8. 71.05 (22) (f) 4. b. of the statutes is amended to read:

71.05 **(22)** (f) 4. b. The standard deduction that may be claimed by an individual under par. (dm) or (dp), based on the individual's filing status.

ins. 6-16

SECTION 9. 71.06 (1m) (intro.) of the statutes is amended to read:

71.06 **(1m)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; ~~AFTER 1997~~ TO 1999. (intro.) The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 1997, and before January 1, 2000:

SECTION 10. 71.06 (1n) of the statutes is created to read:

71.06 **(1n)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; 2000. The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 1999, and before January 1, 2001:

(a) On all taxable income from $0 to $7,500, 4.68%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.25%.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.64%.

(d) On all taxable income exceeding $112,500, 6.7%.

SECTION 11. 71.06 (1p) of the statutes is created to read:

71.06 **(1p)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; AFTER 2000. The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 2000:

(a) On all taxable income from $0 to $7,500, 4.59%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.13%.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.53%.

(d) On all taxable income exceeding $112,500, 6.7%.

SECTION 12. 71.06 (2) (c) (intro.) of the statutes is amended to read:

71.06 **(2)** (c) (intro.) For joint returns, for taxable years beginning after December 31, 1997<u>, and before January 1, 2000</u>:

SECTION 13. 71.06 (2) (d) (intro.) of the statutes is amended to read:

71.06 **(2)** (d) (intro.) For married persons filing separately, for taxable years beginning after December 31, 1997<u>, and before January 1, 2000</u>:

SECTION 14. 71.06 (2) (e) of the statutes is created to read:

71.06 **(2)** (e) For joint returns, for taxable years beginning after December 31, 1999, and before January 1, 2001:

1. On all taxable income from $0 to $10,000, 4.68%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.25%.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.64%.

4. On all taxable income exceeding $150,000, 6.7%.

SECTION 15. 71.06 (2) (f) of the statutes is created to read:

71.06 **(2)** (f) For married persons filing separately, for taxable years beginning after December 31, 1999, and before January 1, 2001:

1. On all taxable income from $0 to $5,000, 4.68%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.25%.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.64%.

4. On all taxable income exceeding $75,000, 6.7%.

SECTION 16. 71.06 (2) (g) of the statutes is created to read:

71.06 **(2)** (g) For joint returns, for taxable years beginning after December 31, 2000:

1. On all taxable income from $0 to $10,000, 4.59%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.13%.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.53%.

4. On all taxable income exceeding $150,000, 6.7%.

SECTION 17. 71.06 (2) (h) of the statutes is created to read:

71.06 **(2)** (h) For married persons filing separately, for taxable years beginning after December 31, 2000:

1. On all taxable income from $0 to $5,000, 4.59%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.13%.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.53%.

4. On all taxable income exceeding $75,000, 6.7%.

SECTION 18. 71.06 (2e) of the statutes is amended to read:

71.06 **(2e)** BRACKET INDEXING. For taxable years beginning after December 31, 1998, and before January 1, 2000, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1m) and (2) (c) and (d), and for taxable years beginning after December 31, 2001, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1p) and (2) (g) and (h), shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. Each amount that is revised under this subsection shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this subsection and incorporate the changes into the income tax forms and instructions.

SECTION 19. 71.06 (2m) of the statutes is amended to read:

71.06 **(2m)** RATE CHANGES. If a rate under sub. (1), (1m), (1n), (1p) or (2) changes during a taxable year, the taxpayer shall compute the tax for that taxable year by the methods applicable to the federal income tax under section 15 of the internal revenue code.

SECTION 20. 71.06 (2s) (b) of the statutes is amended to read:

71.06 **(2s)** (b) For taxable years beginning after December 31, 1997, and before January 1, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1m) and (2) (c) and (d) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1m) and (2) (c) and (d) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 21. 71.06 (2s) (c) of the statutes is created to read:

71.06 **(2s)** (c) For taxable years beginning after December 31, 1999, and before January 1, 2001, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1n) and (2) (e) and (f) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1n) and (2) (e) and (f) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 22. 71.06 (2s) (d) of the statutes is created to read:

71.06 **(2s)** (d) For taxable years beginning after December 31, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1p) and (2) (g) and (h) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1p) and (2) (g) and (h) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 23. 71.07 (5) (a) 7. of the statutes is created to read:

71.07 **(5)** (a) 7. Miscellaneous itemized deductions under sections 67 (b) and ****...... of the Internal Revenue Code.

****NOTE: The department of revenue believes that another IRC code section needs to be added here and I've been told that DOR will locate the section and let me know.

INS. 11-19

SECTION 24. 71.07 (5m) (e) of the statutes is created to read:

71.07 **(5m)** (e) *Sunset.* No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

INS. 11-22

SECTION 25. 71.07 (9) (g) of the statutes is created to read:

71.07 **(9)** (g) No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 26. 71.125 of the statutes is amended to read:

71.125 Imposition of tax. (1) Except as provided in sub. (2), the tax imposed by this chapter on individuals and the rates under s. 71.06 (1), (1m), (1n), (1p) and (2) shall apply to the Wisconsin taxable income of estates or trusts, except nuclear decommissioning trust or reserve funds, and that tax shall be paid by the fiduciary.

(2) Each electing small business trust, as defined in section 1361 (e) (1) of the Internal Revenue Code, is subject to tax at the highest rate under s. 71.06 (1) ~~or under s. 71.06,~~ (1m), (1n) or (1p), whichever taxable year is applicable, on its income as computed under section 641 of the Internal Revenue Code, as modified by s. 71.05 (6) to (12), (19) and (20).

SECTION 27. 71.17 (6) of the statutes is amended to read:

71.17 **(6)** FUNERAL TRUSTS. If a qualified funeral trust makes the election under section 685 of the Internal Revenue Code for federal income tax purposes, that election applies for purposes of this chapter and each trust shall compute its own tax and shall apply the rates under s. 71.06 (1) ~~and~~, (1m), (1n) or (1p).

SECTION 28. 71.64 (9) (b) of the statutes is amended to read:

71.64 **(9)** (b) The department shall from time to time adjust the withholding tables to reflect any changes in income tax rates, any applicable surtax or any changes in dollar amounts in s. 71.06 (1), (1m), (1n), (1p) and (2) resulting from statutory changes, except that the department may not adjust the withholding tables to reflect the changes in rates in s. 71.06 (1m), (1n), (1p) and (2) (c) ~~and~~, (d), (e), (f), (g) and (h) and any changes in dollar amounts with respect to bracket indexing under s. 71.06 (2e) and with respect to standard deduction indexing under s. 71.05 (22) (ds) for any taxable year that begins before ~~January~~ July 1, 2000. The tables shall account for the working families tax credit under s. 71.07 (5m), subject to s. 71.07 (5m) (e). The tables shall be extended to cover from zero to 10 withholding exemptions, shall assume that the payment of wages in each pay period will, when multiplied by the number of pay periods in a year, reasonably reflect the annual wage of the employe from] the employer and shall be based on the further assumption that the annual wage will be reduced for allowable deductions from gross income. The department may determine the length of the tables and a reasonable span for each bracket. In preparing the tables the department shall adjust all withholding amounts not an exact multiple of 10 cents to the next highest figure that is a multiple of 10 cents. The department shall also provide instructions with the tables for withholding with respect to quarterly, semiannual and annual pay periods.

****NOTE: Please review this paragraph very carefully. I'm not sure if it implements your intent. Your instructions state that the bill should "Implement withholding for the 6.53%/6.25%/4.59% [rates] on July 1, 2000", but these rates don't apply until taxable year 2001. Do you mean that you want DOR to start withholding at these lower rates on July 1, 2000, even though the rates don't apply for another 6 months, on January 1, 2001?

SECTION 29. 71.67 (4) (a) of the statutes is amended to read:

71.67 **(4)** (a) The administrator of the lottery division in the department under ch. 565 shall withhold from any lottery prize of $2,000 or more an amount determined by multiplying the amount of the prize by the highest rate applicable to individuals under s. 71.06 (1) ~~or~~, (1m), (1n) or (1p). The administrator shall deposit the amounts withheld, on a monthly basis, as would an employer depositing under s. 71.65 (3) (a).

SECTION 30. 71.67 (5) (a) of the statutes is amended to read:

71.67 **(5)** (a) *Wager winnings.* A person holding a license to sponsor and manage races under s. 562.05 (1) (b) or (c) shall withhold from the amount of any payment of pari–mutuel winnings under s. 562.065 (3) (a) or (3m) (a) an amount determined by multiplying the amount of the payment by the highest rate applicable to individuals under s. 71.06 (1) (a) to (c) ~~or~~, (1m), (1n) or (1p) if the amount of the payment is more than $1,000.

SECTION 9343. Initial applicability; revenue.

(1) MODIFICATION OF THE INDIVIDUAL INCOME TAX SYSTEM. The treatment of sections 71.01 (16), 71.05 (6) (b) 8. and 21. ~~and 22.~~ and 71.07 (5) (a) 7., (am) and (b) of the statutes first applies to taxable years beginning on January 1, 2000.

(END)

INSERT 6–16

SECTION 1. 71.05 (23) of the statutes is created to read:

71.05 **(23)** PERSONAL EXEMPTIONS. From federal adjusted gross income, an individual taxpayer may subtract the following amounts:

(a) For taxable years that begin after December 31, 1999 and before January 1, 2001:

1. A personal exemption of $600 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $600 for the taxpayer's spouse, except for a married individual who is filing separately or as a head of household.

2. An exemption of $600 for an individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $300 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $300 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except for a married individual who is filing separately or as a head of household.

(b) For taxable years that begin after December 31, 2000:

1. A personal exemption of $700 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $700 for the taxpayer's spouse, except for a married individual who is filing separately or as a head of household.

2. An exemption of $700 for an individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $350 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $300 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except for a married individual who is filing separately or as a head of household.

(c)

~~**SECTION 2.** 71.07 (8) (c) of the statutes is amended to read:~~

~~71.07 (8) (c)~~ With respect to persons who change their domicile into or from this state during the taxable year and nonresident persons, personal exemptions shall be limited to the fraction of the amount so determined that Wisconsin adjusted gross income is of federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If a person and that person's spouse are not both domiciled in this state during the entire taxable year, their personal exemptions on a joint return are determined by multiplying the personal exemption that would be available to each of them if they were both domiciled in this state during the entire taxable year by a fraction the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. ~~209, 227, 400,~~ 453; 1997 a. 27, 41, 237, 299.**History:** 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. ~~39, 269, 292; 1993 a. 16, 112, 20~~4, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299.

INSERT 11–19

SECTION 3. ~~71.07~~ (5) (am) of the statutes is created to read:

71.07 **(5)** (am) 1. If the amount determined under par. (a) exceeds $50,000, it shall be reduced to $50,000 by subtracting from that sum any amount of itemized deductions, that are otherwise allowable in calculating the sum under par. (a), that are necessary to reduce that sum to $50,000.

2. To the $50,000 limit under subd. 1., add any amount that may be claimed as a deduction under section 213 of the Internal Revenue Code, to the extent that such amount is not included in the $50,000 calculated under subd. 1. or excluded under par. (a) 15.

SECTION 4. 71.07 (5) (b) of the statutes is amended to read:

71.07 **(5)** (b) Subtract the standard deduction under s. 71.05 (22) from the amount under par. (a) <u>or, if the amount under par. (a) exceeds $50,000, from the amount under par. (am)</u>.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299.**History:** 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299.

INSERT 11–22

SECTION 5. 71.07 (6) (am) 2. c. of the statutes is amended to read:

71.07 **(6)** (am) 2. c. For taxable years beginning after December 31, 1999, and before January 1, 2001, 2.75% of the earned income of the spouse with the lower earned income, but not more than ~~$385~~ <u>$412.50</u>.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299.**History:** 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299.

SECTION 6. 71.07 (6) (am) 2. d. of the statutes is amended to read:

71.07 **(6)** (am) 2. d. For taxable years beginning after December 31, 2000, 3% of the earned income of the spouse with the lower earned income, but not more than ~~$420~~ <u>$450</u>.

History: 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299.**History:** 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299.

SECTION 7. 71.07 (8) (d) of the statutes is created to read:

71.07 **(8)** (d) No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

-1917/3

for /3 -- INStructions

1) Change tax rates:

TY 2000: top is same, 6.7%
6.55
6.37
4.77

TY 2001 top is same; 6.7%
6.5
6.15
4.60

2) change exemption amts for elderly: TY 2000 → 200
TY 2001 → 250

3) increase married couple max income → $16,000,

so credit increases to

$420 in TY 2000
$480 in TY 2001

Make changes DOR suggests

4) Drop $50K itemized deductions cap.

Post-it® Fax Note 7671	Date 1-29 # of pages ▶ 1
To Marc Shovers	From S.Gutz-Hedrix
Co./Dept.	Co.
Phone #	Phone # 6-1865
Fax # 6-5648	Fax #

Constant Basis A

A taxpayer who s ederal basis different from the Wisconsin basis, is required to adjust Wisconsin income to reflect the amount of this difference. This applies if the asset was owned prior to January 1, 1965. A constant basis asset is one, such as unimproved land, for which depreciation is not allowed.

Authorization: Wisconsin Statutes, section 71.05 (13)(b)

FY96 Fiscal Effect: Minimal

Adjusted Basis of Assets Acquired after January 1, 1965

A taxpayer who acquires a constant basis asset, such as unimproved land, which has a federal basis different from the Wisconsin basis, is required to modify Wisconsin income to reflect the difference in the year that the asset is sold or otherwise disposed of. When a taxpayer acquires a changing basis asset, one for which depreciation is allowed, such as a building, Wisconsin income is modified to reflect differences in the state and federal bases each year, except that the differences may be amortized over a period of five years or less.

This section applies to property acquired after January 1, 1965, for Wisconsin tax purposes. It also generally applies to taxpayers who move into the state and bring certain property with them.

Authorization: Wisconsin Statutes, section 71.05 (19) and (20)

FY96 Fiscal Effect: Minimal

Capital Gains Deduction

Wisconsin allows taxpayers to exclude 60% of the capital gain on assets held more than one year. This exclusion is generally similar to the exclusion allowed under federal law prior to 1987, but repealed in the Tax Reform Act of 1986. Wisconsin chose not to adopt this feature of the Tax Reform Act, but to retain the special treatment of capital gains.

Authorization: Wisconsin Statutes, section 71.05 (6)(b)9

FY96 Fiscal Effect: $104,000,000

Unemployment Compensation

Wisconsin excludes a portion of unemployment compensation from income when income falls below certain amounts. Taxable unemployment compensation equals the lesser of total unemployment compensation or 50% of the amount, if any, by which unemployment benefits plus the recipient's adjusted gross income (excluding unemployment compensation and certain disability benefits) exceed specified base amounts. The base amounts are: $12,000 for single persons and married persons who file separately and lived apart from their spouses for the full tax year; $18,000 for married persons filing a joint return; and $0 for married persons who file separately but lived with their spouses for part or all of the tax year. This treatment is similar to pre-1987 federal treatment. The Tax Reform Act of 1986 made all unemployment benefits taxable for federal purposes, beginning with the 1987 tax year. Wisconsin chose not to follow this treatment.

Authorization: Wisconsin Statutes, section 71.05 (6)(b)8

FY96 Fiscal Effect: $4,200,000

State of Wisconsin
1999 – 2000 LEGISLATURE

LRB–1917/P2 3
MES:kmg:hmh

2 RMR

DOA:......Gates–Hendrix – Eliminate certain tax credits; federalize soc. security and unemp. comp treatment and the stnd deduction; change income tax rates and brackets; delay indexing, withholding changes; create a personal exemption

FOR 1999–01 BUDGET — NOT READY FOR INTRODUCTION

By 10 a.m. on Friday

Don't Gen Cat

AN ACT...; **relating to:** eliminating the school property tax credit, eliminating the working families tax credit, eliminating miscellaneous from the itemized deductions credit, federalizing the treatment of social security and unemployment compensation, federalizing the standard deduction, suspending the indexing of the standard deduction and individual income tax brackets, changing individual income tax rates and brackets and creating a personal individual income tax exemption.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

INS ANL

~~To be provided in a future version of the bill.~~

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

SECTION 1. 71.01 (16) of the statutes is amended to read:

71.01 **(16)** "Wisconsin taxable income" of natural persons means Wisconsin adjusted gross income less the Wisconsin standard deduction, less the personal exemption described under s. 71.05 (23), with losses, depreciation, recapture of benefits, offsets, depletion, deductions, penalties, expenses and other negative income items determined according to the manner that income is or would be allocated, except that the negative income items on individual or separate returns for net rents and other net returns which are marital property attributable to the investment, rental, licensing or other use of nonmarital property shall be allocated to the owner of the property.

SECTION 2. 71.05 (6) (b) 8. of the statutes is repealed.

SECTION 3. 71.05 (6) (b) 21. of the statutes is repealed.

SECTION 4. 71.05 (22) (dm) of the statutes is amended to read:

71.05 **(22)** (dm) *Deduction limits; 1994 ~~and thereafter~~ to 1999.* Except as provided in par. (f), for taxable years beginning ~~on or after January 1, 1994~~ after December 31, 1993, and before January 1, 2000, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $7,500, the standard deduction is $5,200. For a single individual who has a Wisconsin adjusted gross income of at least $7,500 but not more than $50,830, the standard deduction is the amount obtained by subtracting from $5,200 12% of Wisconsin adjusted gross income in excess of $7,500 but not less than $0. For a single individual who has a Wisconsin adjusted gross income of more than $50,830, the standard deduction is $0. For a head of household who has a Wisconsin adjusted gross income of less than $7,500, the standard deduction is $7,040. For a head of household who has a Wisconsin adjusted gross income of at least $7,500 but not more than $25,000, the standard deduction is the amount obtained by subtracting from $7,040 22.515% of Wisconsin adjusted gross income in excess of $7,500 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of more than $25,000, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $10,000, the standard deduction is $8,900. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $10,000 but not more than $55,000, the standard deduction is the amount obtained by subtracting from $8,900 19.778% of aggregate Wisconsin adjusted gross income in excess of $10,000 but not less than $0. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of more than $55,000, the standard deduction is $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $4,750, the standard deduction is $4,230. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $4,750 but not more than $26,140, the standard deduction is the amount obtained by subtracting from $4,230 19.778% of Wisconsin adjusted gross income in excess of

$4,750 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of more than $26,140, the standard deduction is $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 5. 71.05 (22) (dp) of the statutes is created to read:

71.05 **(22)** (dp) *Deduction limits, 2000 and thereafter.* Except as provided in par. (f), for taxable years beginning after December 31, 1999, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $7,200. For a single individual who has a Wisconsin adjusted gross income of at least $10,380 but not more than $70,380, the standard deduction is the amount obtained by subtracting from $7,200 12% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a single individual who has a Wisconsin adjusted gross income of more than $70,380, the standard deduction is $0. For a head of household who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $9,300. For a head of household who has a Wisconsin adjusted gross income of at least $10,380 but not more than $30,350, the standard deduction is the amount obtained by subtracting from $9,300 22.515% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of more than $30,350, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $14,570, the standard deduction is $12,970. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $14,570 but not more than $80,150, the standard deduction is the amount obtained by subtracting from $12,970 19.778% of aggregate Wisconsin adjusted gross income in excess of $14,570 but not less than $0. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of more than $80,150, the standard deduction is $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $6,920, the standard deduction is $6,160. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $6,920 but not more than $38,070, the standard deduction is the amount obtained by subtracting from $6,160 19.778% of Wisconsin adjusted gross income in excess of $6,920 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of more than $38,070, the standard deduction is $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 6. 71.05 (22) (ds) of the statutes is amended to read:

71.05 **(22)** (ds) *Standard deduction indexing.* For taxable years beginning after December 31, 1998, and before January 1, 2000, and for taxable years beginning after December 31, 2000, the dollar amounts of the standard deduction that is allowable under ~~par.~~ pars. (dm) and (dp) and all of the dollar amounts of Wisconsin adjusted gross income under ~~par.~~ pars. (dm) and (dp) shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.

SECTION 7. 71.05 (22) (f) 4. b. of the statutes is amended to read:

71.05 **(22)** (f) 4. b. The standard deduction that may be claimed by an individual under par. (dm) or (dp), based on the individual's filing status.

SECTION 8. 71.05 (23) of the statutes is created to read:

71.05 **(23)** PERSONAL EXEMPTIONS. In computing Wisconsin taxable income ~~From federal adjusted gross income~~, an individual taxpayer may subtract the following amounts:

(a) For taxable years that begin after December 31, 1999, and before January 1, 2001:

1. A personal exemption of $600 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $600 for the taxpayer's spouse, except for a married individual who is filing separately or as a head of household.

2. An exemption of $600 for each ~~an~~ individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $200 ~~[illegible]~~ if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $200 ~~[illegible]~~ for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except for a married individual who is filing separately or as a head of household.

(b) For taxable years that begin after December 31, 2000:

1. A personal exemption of $700 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $700 for the taxpayer's spouse, except for a married individual who is filing separately or as a head of household.

2. An exemption of $700 for an individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of ~~$200~~ 250 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and ~~$200~~ 250 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except for a married individual who is filing separately or as a head of household.

(c) With respect to persons who change their domicile into or from this state during the taxable year and nonresident persons, personal exemptions under pars. (a) and (b) shall be limited to the fraction of the amount so determined that Wisconsin adjusted gross income is of federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If a person and that person's spouse are not both domiciled in this state during the entire taxable year, their personal exemptions on a joint return are determined by multiplying the personal exemption that would be available to each of them if they were both domiciled in this state during the entire taxable year by a fraction the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 9. 71.06 (1m) (intro.) of the statutes is amended to read:

71.06 **(1m)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; ~~AFTER~~ 1997 TO 1999. (intro.) The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 1997, and before January 1, 2000:

SECTION 10. 71.06 (1n) of the statutes is created to read:

71.06 **(1n)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; 2000. The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 1999, and before January 1, 2001:

(a) On all taxable income from $0 to $7,500, 4.77%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.37%.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.55%.

(d) On all taxable income exceeding $112,500, 6.7%.

SECTION 11. 71.06 (1p) of the statutes is created to read:

71.06 **(1p)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; AFTER 2000. The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 2000:

(a) On all taxable income from $0 to $7,500, 4.6%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.15%.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.5%.

(d) On all taxable income exceeding $112,500, 6.7%.

SECTION 12. 71.06 (2) (c) (intro.) of the statutes is amended to read:

71.06 **(2)** (c) (intro.) For joint returns, for taxable years beginning after December 31, 1997, and before January 1, 2000:

SECTION 13. 71.06 (2) (d) (intro.) of the statutes is amended to read:

71.06 **(2)** (d) (intro.) For married persons filing separately, for taxable years beginning after December 31, 1997, and before January 1, 2000:

SECTION 14. 71.06 (2) (e) of the statutes is created to read:

71.06 **(2)** (e) For joint returns, for taxable years beginning after December 31, 1999, and before January 1, 2001:

1. On all taxable income from $0 to $10,000, 4.77%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.37%.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.55%.

4. On all taxable income exceeding $150,000, 6.7%.

SECTION 15. 71.06 (2) (f) of the statutes is created to read:

71.06 **(2)** (f) For married persons filing separately, for taxable years beginning after December 31, 1999, and before January 1, 2001:

1. On all taxable income from $0 to $5,000, 4.77%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.37%.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.55%.

4. On all taxable income exceeding $75,000, 6.7%.

SECTION 16. 71.06 (2) (g) of the statutes is created to read:

71.06 **(2)** (g) For joint returns, for taxable years beginning after December 31, 2000:

1. On all taxable income from $0 to $10,000, 4.6%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.15%.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.5%.

4. On all taxable income exceeding $150,000, 6.7%.

SECTION 17. 71.06 (2) (h) of the statutes is created to read:

71.06 **(2)** (h) For married persons filing separately, for taxable years beginning after December 31, 2000:

1. On all taxable income from $0 to $5,000, 4.6%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.15%.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.5%.

4. On all taxable income exceeding $75,000, 6.7%.

SECTION 18. 71.06 (2e) of the statutes is amended to read:

71.06 **(2e)** BRACKET INDEXING. For taxable years beginning after December 31, 1998, and before January 1, 2000, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1m) and (2) (c) and (d), and for taxable years beginning after December 31, 2001, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1p) and (2) (g) and (h), shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. Each amount that is revised under this subsection shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this subsection and incorporate the changes into the income tax forms and instructions.

SECTION 19. 71.06 (2m) of the statutes is amended to read:

71.06 **(2m)** RATE CHANGES. If a rate under sub. (1), (1m), (1n), (1p) or (2) changes during a taxable year, the taxpayer shall compute the tax for that taxable year by the methods applicable to the federal income tax under section 15 of the internal revenue code.

SECTION 20. 71.06 (2s) (b) of the statutes is amended to read:

71.06 **(2s)** (b) For taxable years beginning after December 31, 1997, and before January 1, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1m) and (2) (c) and (d) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1m) and (2) (c) and (d) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 21. 71.06 (2s) (c) of the statutes is created to read:

71.06 **(2s)** (c) For taxable years beginning after December 31, 1999, and before January 1, 2001, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1n) and

(2) (e) and (f) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1n) and (2) (e) and (f) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 22. 71.06 (2s) (d) of the statutes is created to read:

71.06 **(2s)** (d) For taxable years beginning after December 31, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1p) and (2) (g) and (h) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1p) and (2) (g) and (h) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 23. 71.07 (5) (a) 7. of the statutes is created to read:

71.07 **(5)** (a) 7. Miscellaneous itemized deductions under ~~sections 67 (b) and~~ ~~(***) of~~ the Internal Revenue Code, without regard to whether such deductions are subject to the 2% floor as described in section 67 of the Internal Revenue Code.

~~****NOTE: The department of revenue believes that another IRC code section needs to be added here and I've been told that DOR will locate the section and let me know.~~

SECTION 24. 71.07 (5) (am) of the statutes is created to read:

71.07 **(5)** (am) 1. ~~If~~ Reduce the amount determined under par. (a) ~~exceeds $50,000, it shall be reduced~~ to $50,000 ~~by subtracting from that sum any amount of itemized deductions, that are otherwise allowable in calculating the sum under par. (a), that are necessary to reduce that sum to $50,000~~ or to the amount determined under par. (a) if that amount is less than $50,000.

2. To the $50,000 limit under subd. 1., add any amount that may be claimed as a deduction under section 213 of the Internal Revenue Code, ~~to the extent that such amount is not included in the $50,000 calculated under subd. 1.~~ other than amounts specified ~~are excluded~~ under par. (a) 15.

SECTION 25. 71.07 (5) (b) of the statutes is amended to read:

71.07 **(5)** (b) Subtract the standard deduction under s. 71.05 (22) from the amount under par. ~~(a) or, if the amount under par. (a) exceeds $50,000, from the amount under par.~~ (am) 2.

SECTION 26. 71.07 (5m) (e) of the statutes is created to read:

71.07 **(5m)** (e) *Sunset.* No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 27. 71.07 (6) (am) 2. c. of the statutes is amended to read:

71.07 **(6)** (am) 2. c. For taxable years beginning after December 31, 1999, and before January 1, 2001, 2.75% of the earned income of the spouse with the lower earned income, but not more than ~~$385~~ ~~$412.50~~ $440.

SECTION 28. 71.07 (6) (am) 2. d. of the statutes is amended to read:

71.07 **(6)** (am) 2. d. For taxable years beginning after December 31, 2000, 3% of the earned income of the spouse with the lower earned income, but not more than ~~$420~~ ~~$450~~ $480.

SECTION 29. 71.07 (8) (d) of the statutes is created to read:

71.07 **(8)** (d) No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 30. 71.07 (9) (g) of the statutes is created to read:

71.07 **(9)** (g) No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 31. 71.125 of the statutes is amended to read:

71.125 Imposition of tax. **(1)** Except as provided in sub. (2), the tax imposed by this chapter on individuals and the rates under s. 71.06 (1), (1m), (1n), (1p) and (2) shall apply to the Wisconsin taxable income of estates or trusts, except nuclear decommissioning trust or reserve funds, and that tax shall be paid by the fiduciary.

(2) Each electing small business trust, as defined in section 1361 (e) (1) of the Internal Revenue Code, is subject to tax at the highest rate under s. 71.06 (1) ~~or under s. 71.06~~, (1m), (1n) or (1p), whichever taxable year is applicable, on its income as computed under section 641 of the Internal Revenue Code, as modified by s. 71.05 (6) to (12), (19) and (20).

SECTION 32. 71.17 (6) of the statutes is amended to read:

71.17 **(6)** FUNERAL TRUSTS. If a qualified funeral trust makes the election under section 685 of the Internal Revenue Code for federal income tax purposes, that election applies for purposes of this chapter and each trust shall compute its own tax and shall apply the rates under s. 71.06 (1) ~~and~~, (1m), (1n) or (1p).

SECTION 33. 71.64 (9) (b) of the statutes is amended to read:

71.64 **(9)** (b) The department shall from time to time adjust the withholding tables to reflect any changes in income tax rates, any applicable surtax or any changes in dollar amounts in s. 71.06 (1), (1m), (1n), (1p) and (2) resulting from statutory changes, except that the department may not adjust the withholding tables to reflect the changes in rates in s. 71.06 (1m), (1n), (1p) and (2) (c) ~~and~~, (d), (e), (f), (g) and (h) and any changes in dollar amounts with respect to bracket indexing under s. 71.06 (2e) and with respect to standard deduction indexing under s. 71.05 (22) (ds) ~~for any taxable year that begins~~ before ~~January~~ July 1, 2000. The tables shall account for the working families tax credit under s. 71.07 (5m), subject to s. 71.07 (5m) (e). The tables shall be extended to cover from zero to 10 withholding exemptions, shall assume that the payment of wages in each pay period will, when multiplied by the number of pay periods in a year, reasonably reflect the annual wage of the employe from] the employer and shall be based on the further assumption that the annual wage will be reduced for allowable deductions from gross income. The department may determine the length of the tables and a reasonable span for each bracket. In preparing the tables the department shall adjust all withholding amounts not an exact multiple of 10 cents to the next highest figure that is a multiple of 10 cents. The department shall also provide instructions with the tables for withholding with respect to quarterly, semiannual and annual pay periods.

6.15 4.6

****NOTE: Please review this paragraph very carefully. I'm not sure ~~if it implements~~ your intent. ~~Your~~ instructions state that the bill should "Implement ~~withholding~~ for the 6.5[illegible]%/[illegible]%/[illegible]% [rates] ~~on July 1, 2000~~", but ~~these rates~~ don't apply until taxable year 2001. Do you mean that you want DOR ~~to start withholding~~ at these lower rates on July 1, 2000~~, even though the rates~~ don't apply for another 6 ~~months,~~ on January 1, 2001?

SECTION 34. 71.67 (4) (a) of the statutes is amended to read:

71.67 **(4)** (a) The administrator of the lottery division in the department under ch. 565 shall withhold from any lottery prize of $2,000 or more an amount determined by multiplying the amount of the prize by the highest rate applicable to individuals under s. 71.06 (1) ~~or~~, (1m), (1n) or (1p). The administrator shall deposit the amounts withheld, on a monthly basis, as would an employer depositing under s. 71.65 (3) (a).

SECTION 35. 71.67 (5) (a) of the statutes is amended to read:

71.67 **(5)** (a) *Wager winnings.* A person holding a license to sponsor and manage races under s. 562.05 (1) (b) or (c) shall withhold from the amount of any payment of pari–mutuel winnings under s. 562.065 (3) (a) or (3m) (a) an amount determined by multiplying the amount of the payment by the highest rate applicable to individuals under s. 71.06 (1) (a) to (c) ~~or~~, (1m), (1n) or (1p) if the amount of the payment is more than $1,000.

SECTION 9343. Initial applicability; revenue.

(1) MODIFICATION OF THE INDIVIDUAL INCOME TAX SYSTEM. The treatment of sections 71.01 (16), 71.05 (6) (b) 8. and 21. and 71.07 (5) (a) (intro.) and 7., (am) ~~and~~ (b) of the statutes first applies to taxable years beginning on January 1, 2000.

(END)

INS, ANL

TAXATION

INCOME TAXATION

This bill makes various changes in the structure of the individual income tax system. The bill modifies the calculation of adjusted gross income (AGI), prohibits new claims from being made under certain income tax credits, creates a personal exemption, modifies the itemized deductions credit and modifies the sliding scale standard deduction and the tax rates and brackets.

Under current law, the standard income tax deduction has ~~4~~ four different categories, each of which has a different deduction amount based on income. The maximum standard deduction amounts in each category phase out as income increases. The categories, the maximum standard deduction amounts and the maximum income amounts to which the standard deduction applies before the phaseout begins are the following: single individuals, $5,200 on Wisconsin AGI (WAGI) of less than $7,500; heads of households, $7,040 on WAGI of less than $7,500; married couples filing jointly, $8,900 on WAGI of less than $10,000; and married couples filing separately, $4,230 on WAGI of less than $4,750.

This bill retains the same ~~4~~ four categories and the maximum income at which the standard deduction reaches $0. Under this bill, for taxable years beginning after December 31, 1999, the categories, the maximum standard deduction amounts and the maximum income amounts to which the standard deduction applies before the phaseout begins are the following: single individuals, $7,200 on WAGI of less than $10,380; heads of households, $9,300 on WAGI of less than $10,380; married couples filing jointly, $12,970 on WAGI of less than $14,570; and married couples filing separately, $6,160 on WAGI of less than $6,920.

Under current law, the dollar amounts of the standard deduction and the dollar amounts of WAGI are indexed for inflation for taxable years that begin after December 31, 1998. The bill suspends indexing for taxable year 2000.

Under current law, there are ~~3~~ three income tax brackets for single individuals, certain fiduciaries, heads of households and married persons. The brackets for single individuals, certain fiduciaries and heads of households are taxable income from $0 to $7,500; from more than $7,500 to $15,000; and more than $15,000. The brackets for married persons filing jointly are taxable income from $0 to $10,000; from more than $10,000 to $20,000; and more than $20,000. The brackets for married persons filing separately are taxable income from $0 to $5,000; from more than $5,000 to $10,000; and more than $10,000.

The rate of taxation under current law for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.77% of taxable income, the rate for the middle bracket is 6.37% and the rate for the highest bracket is 6.77%.

This bill expands the number of brackets to ~~4~~ four and lowers the rate of taxation in all ~~4~~ four brackets in taxable year 2000. The bill also lowers the rate of taxation for taxable year 2001 and all taxable years thereafter for the first ~~3~~ three brackets. Under the bill, the brackets for single individuals, certain fiduciaries and heads of households

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for taxable year 2000 are taxable income from $0 to $7,500; from more than $7,500 to $15,000; from more than $15,000 to $112,500; and more than $112,500. The brackets for married persons filing jointly are taxable income from $0 to $10,000; from more than $10,000 to $20,000; from more than $20,000 to $150,000; and more than $150,000. The brackets for married persons filing separately are taxable income from $0 to $5,000; from more than $5,000 to $10,000; from more than $10,000 to $75,000; and more than $75,000. The brackets remain the same for taxable year 2001 and taxable years thereafter.

Under this bill, for taxable year 2000, the rate of taxation for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.77% of taxable income, the rate for the next bracket is 6.37%, the rate for the next bracket is 6.55% and the rate for the highest bracket is 6.7%.

Under this bill, for taxable year 2001 and all taxable years thereafter, the rate of taxation for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.6% of taxable income, the rate for the next bracket is 6.15%, the rate for the next bracket is 6.5% and the rate for the highest bracket remains at 6.7%.

Under current law, the individual income tax brackets are indexed for inflation for taxable years beginning after December 31, 1998. This bill indexes the brackets for taxable year 1999 and then suspends indexing until taxable years beginning after December 31, 2001.

Under current law, after an individual calculates his or her gross tax liability, several tax credits may be calculated to reduce his or her gross tax liability. Some credits, like the earned income tax credit and the homestead tax credit, are refundable. Some credits, like the school property tax credit, the working families tax credit and the married persons credit, are nonrefundable. Generally, with a refundable credit, if the amount of the claim exceeds the taxpayer's tax liability, or if there is no tax due, the excess amount of the credit is paid to the claimant by a check from the state. With a nonrefundable credit, the amount of the credit is available only up to the amount of the taxpayer's tax liability.

Under this bill, for taxable years beginning after December 31, 1999, no new claims may be filed for the following nonrefundable tax credits: the school property tax credit, the working families tax credit, the dependent credit and the senior credit. The bill does not affect any of the refundable tax credits. In addition, the bill increases the married persons tax credit from a maximum credit of $385 to $420 in taxable year 2000 and from a maximum of $420 to $480 in taxable years beginning after December 31, 2000.

This bill also modifies the nonrefundable itemized deductions credit. Under current law, the itemized deductions credit is calculated as 5% of the difference between the sum of certain amounts that are allowed as itemized deductions under the Internal Revenue Code and the standard deduction. Some amounts that are allowed as itemized deductions under the Internal Revenue Code, such as casualty and theft deductions, expenses to move from this state and interest incurred to purchase or refinance a residence that is not a principal residence and that is not located in this state, are not allowed in the calculation of the itemized deductions credit. Under this bill, certain miscellaneous itemized deductions that are allowed as itemized deductions under the Internal Revenue Code are not allowed under the itemized deductions credit. ~~The bill also caps at $50,000 the amount of non-medical itemized deductions to which the credit applies.~~

The bill creates a personal exemption for a taxpayer, the taxpayer's spouse and the taxpayer's dependents. The personal exemption is $600 for each of these persons in taxable year 2000 and $700 for taxable years that begin after December 31, 2000. An additional personal exemption exists for taxpayers who are at least 65 years old. This additional exemption is $200 for taxable year 2000 and $250 for taxable years that begin after December 31, 2000.

In general, under current law, 50% of certain social security benefits are taxed by this state once the recipient's income reaches $34,000 for a single individual or $44,000 for a married couple filing jointly, while the federal government taxes 85% of these same benefits. This bill repeals the state's treatment of social security benefits, thus taxing the benefits at the same rate as the federal government.

Also under current law, this state excludes from taxation a portion of unemployment compensation (UC) if income falls below certain levels. Currently, taxable UC equals the lesser of total UC or 50% of the amount, if any, by which UC benefits plus the recipient's AGI (excluding UC and certain disability benefits) exceed certain base amounts. The base amounts are $12,000 for a single person and a married person who files separately and lived apart from his or her spouse for the entire taxable year; $18,000 for married persons who file jointly; and $0 for a married person who files separately but lived with his or her spouse for at least part of the taxable year. Under federal law, all UC benefits are taxable. This bill repeals the state's treatment of UC benefits, thus taxing the benefits at the same rate as the federal government.

This bill will be referred to the joint survey committee on tax exemptions for a detailed analysis, which will be printed as an appendix to this bill.

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

~~INS 12–24~~

~~**SECTION 1.** 71.07 (5) (a) (intro.) of the statutes is amended to read:~~

~~71.07 **(5)** (a) (intro.) Add the amounts, other than medical amounts that may be claimed as a deduction under section 213 of the Internal Revenue Code, allowed as itemized deductions under the internal revenue code except:~~

~~**History:** 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299.~~~~**History:** 1987 a. 312; 1987 a. 411 ss. 63, 79 to 82, 85, 86; 1987 a. 419, 422; 1989 a. 31, 44, 56, 100, 359; 1991 a. 39, 269, 292; 1993 a. 16, 112, 204, 471, 491; 1995 a. 27 ss. 3377m to 3393m, 9116 (5); 1995 a. 209, 227, 400, 453; 1997 a. 27, 41, 237, 299.~~

Shovers, Marc

From: Gates-Hendrix, Sherrie
Sent: Friday, January 29, 1999 5:52 PM
To: Shovers, Marc
Subject: income tax update

Here's what I have from the most recent Gov's briefing:

- take the top rate from 6.7% to 6.75%
- take the bottom rate from 4.77% to 4.75%
- take the 2nd rate from 6.37% to 6.35%
- retain our current treatment of UC
- increase the Homestead Tax Credit program ceiling from $19,154 to _____? (try $22,500)

I will be in sometime tomorrow. Not sure exactly when....

$$\text{slope} = \frac{\text{max prop taxes}}{\text{max income} - \text{threshhold}}$$

$$\text{slope} = \frac{1{,}450}{22{,}500 - 8000}$$

$$\text{slope} = \frac{1{,}450}{14{,}500}$$

slope = .1 or 10%

1) increase top a rate to 6.75?
both years

2) 1st year: change 6.37 → 6.35

4.77 → 4.75

3) remove fed of UC

4) raise homestead max income to $22,500 from $19,154

Slope = $\frac{\text{max prop taxes}}{\text{max income} - \text{threshold}}$

1/29/99

Instructions for /P4

→ slope = $\frac{1450}{22{,}500 - 8000}$

slope = $\frac{1450}{14{,}500}$

slope = .1 or 10%

State of Wisconsin
1999 - 2000 LEGISLATURE

LRB-1917/P3
MES:kmg:ijs

fMR

increase homestead;

DOA:......Gates-Hendrix - Eliminate certain tax credits; increase homestead; federalize soc. security ~~and unemp. comp~~ treatment and the stnd deduction; change income tax rates, ~~and~~ brackets; delay indexing, withholding changes; create a personal exemption

FOR 1999-01 BUDGET — NOT READY FOR INTRODUCTION

~~Capped med deductions 200K~~

~~.37 → 6.35~~
~~4.77 → 4.75~~
~~remove fed UC~~
~~sunset cap on med deductions in 2 yrs~~
~~raise homestead from 19,154 → 22,500~~

Don't concat.

AN ACT ... **relating to:** eliminating the school property tax credit, eliminating the working families tax credit, eliminating miscellaneous deductions from the itemized deductions credit, increasing the married persons tax credit, federalizing the treatment of social security ~~and unemployment compensation~~, increasing the maximum income for the homestead tax credit, federalizing the standard deduction, suspending the indexing of the standard deduction and individual income tax brackets, delaying changes to the withholding tables, changing individual income tax rates and brackets and creating a personal individual income tax exemption.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

This bill makes various changes in the structure of the individual income tax system. The bill modifies the calculation of adjusted gross income (AGI), prohibits new claims from being made under certain income tax credits, creates a personal exemption, modifies the itemized deductions credit and modifies the sliding scale standard deduction and the tax rates and brackets.

Under current law, the standard income tax deduction has four different categories, each of which has a different deduction amount based on income. The maximum standard deduction amounts in each category phase out as income increases. The categories, the maximum standard deduction amounts and the maximum income amounts to which the standard deduction applies before the phaseout begins are the following: single individuals, $5,200 on Wisconsin AGI (WAGI) of less than $7,500; heads of households, $7,040 on WAGI of less than $7,500; married couples filing jointly, $8,900 on WAGI of less than $10,000; and married couples filing separately, $4,230 on WAGI of less than $4,750. increases

This bill retains the same four categories and the maximum income at which the standard deduction reaches $0. Under this bill, for taxable years beginning after December 31, 1999, the categories, the maximum standard deduction amounts and the maximum income amounts to which the standard deduction applies before the phaseout begins are the following: single individuals, $7,200 on WAGI of less than $10,380; heads of households, $9,300 on WAGI of less than $10,380; married couples filing jointly, $12,970 on WAGI of less than $14,570; and married couples filing separately, $6,160 on WAGI of less than $6,920.

Under current law, the dollar amounts of the standard deduction and the dollar amounts of WAGI are indexed for inflation for taxable years that begin after December 31, 1998. The bill suspends indexing for taxable year 2000.

Under current law, there are three income tax brackets for single individuals, certain fiduciaries, heads of households and married persons. The brackets for single individuals, certain fiduciaries and heads of households are taxable income from $0 to $7,500; from more than $7,500 to $15,000; and more than $15,000. The brackets for married persons filing jointly are taxable income from $0 to $10,000; from more than $10,000 to $20,000; and more than $20,000. The brackets for married persons filing separately are taxable income from $0 to $5,000; from more than $5,000 to $10,000; and more than $10,000.

The rate of taxation under current law for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.77% of taxable income, the rate for the middle bracket is 6.37% and the rate for the highest bracket is 6.77%.

This bill expands the number of brackets to four and lowers the rate of taxation in all four brackets in taxable year 2000. The bill also lowers the rate of taxation for taxable year 2001 and all taxable years thereafter for the first three brackets. Under the bill, the brackets for single individuals, certain fiduciaries and heads of households for taxable year 2000 are taxable income from $0 to $7,500; from more than $7,500 to $15,000; from more than $15,000 to $112,500; and more than $112,500. The brackets for married persons filing jointly are taxable income from $0 to $10,000; from more than $10,000 to $20,000; from more than $20,000 to $150,000; and more than $150,000. The brackets for married persons filing separately are taxable income from $0 to $5,000; from more than $5,000 to $10,000; from more than

$10,000 to $75,000; and more than $75,000. The brackets remain the same for taxable year 2001 and are indexed for inflation in taxable years thereafter.

Under this bill, for taxable year 2000, the rate of taxation for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.77% of taxable income, the rate for the next bracket is 6.37%, the rate for the next bracket is 6.55% and the rate for the highest bracket is 6.7%.

Under this bill, for taxable year 2001 and all taxable years thereafter, the rate of taxation for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.6% of taxable income, the rate for the next bracket is 6.15%, the rate for the next bracket is 6.5% and the rate for the highest bracket remains at 6.7%.

Under current law, the individual income tax brackets are indexed for inflation for taxable years beginning after December 31, 1998. This bill ~~indexes the brackets for taxable year 1999 and then~~ suspends indexing until taxable years beginning after December 31, 2001.

Under current law, after an individual calculates his or her gross tax liability, several tax credits may be calculated to reduce his or her gross tax liability. Some credits, like the earned income tax credit and the homestead tax credit, are refundable. Some credits, like the school property tax credit, the working families tax credit and the married persons credit, are nonrefundable. Generally, with a refundable credit, if the amount of the claim exceeds the taxpayer's tax liability, or if there is no tax due, the excess amount of the credit is paid to the claimant by a check from the state. With a nonrefundable credit, the amount of the credit is available only up to the amount of the taxpayer's tax liability.

Under this bill, for taxable years beginning after December 31, 1999, no new claims may be filed for the following nonrefundable tax credits: the school property tax credit, the working families tax credit, the dependent credit and the senior credit. The bill does not affect any of the refundable tax credits. In addition, the bill increases the married persons tax credit from a maximum credit of $385 to $420 in taxable year 2000 and from a maximum of $420 to $480 in taxable years beginning after December 31, 2000.

INS, ANL-1

INS, ANL-2

This bill also modifies the nonrefundable itemized deductions credit. Under current law, the itemized deductions credit is calculated as 5% of the difference between the sum of certain amounts that are allowed as itemized deductions under the Internal Revenue Code and the standard deduction. Some amounts that are allowed as itemized deductions under the Internal Revenue Code, such as casualty and theft deductions, ~~expenses to move from this state~~ and interest incurred to purchase or refinance a residence that is not a principal residence and that is not located in this state, are not allowed in the calculation of the itemized deductions credit. Under this bill, ~~many~~ miscellaneous itemized deductions that are allowed as itemized deductions under the Internal Revenue Code are not allowed under the itemized deductions credit.

The bill creates a personal exemption for a taxpayer, the taxpayer's spouse and the taxpayer's dependents. The personal exemption is $600 for each of these persons in taxable year 2000 and $700 for taxable years that begin after December 31, 2000.

An additional personal exemption exists for taxpayers who are at least 65 years old. This additional exemption is $200 for taxable year 2000 and $250 for taxable years that begin after December 31, 2000.

In general, under current law, 50% of certain social security benefits are taxed by this state once the recipient's income reaches $34,000 for a single individual or $44,000 for a married couple filing jointly, while the federal government taxes 85% of these same benefits. This bill repeals the state's treatment of social security benefits, thus taxing the benefits at the same rate as the federal government.

Also under current law, this state excludes from taxation a portion of unemployment compensation (UC) if income falls below certain levels. Currently, taxable UC equals the lesser of total UC or 50% of the amount, if any, by which UC benefits plus the recipient's AGI (excluding UC and certain disability benefits) exceed certain base amounts. The base amounts are $12,000 for a single person and a married person who files separately and lived apart from his or her spouse for the entire taxable year; $18,000 for married persons who file jointly; and $0 for a married person who files separately but lived with his or her spouse for at least part of the taxable year. Under federal law, all UC benefits are taxable. This bill repeals the state's treatment of UC benefits, thus taxing the benefits at the same rate as the federal government.

This bill will be referred to the joint survey committee on tax exemptions for a detailed analysis, which will be printed as an appendix to this bill.

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

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

SECTION 1. 71.01 (16) of the statutes is amended to read:

71.01 **(16)** "Wisconsin taxable income" of natural persons means Wisconsin adjusted gross income less the Wisconsin standard deduction, less the personal exemption described under s. 71.05 (23), with losses, depreciation, recapture of benefits, offsets, depletion, deductions, penalties, expenses and other negative income items determined according to the manner that income is or would be allocated, except that the negative income items on individual or separate returns for net rents and other net returns which are marital property attributable to the investment, rental, licensing or other use of nonmarital property shall be allocated to the owner of the property.

~~**SECTION 2.** 71.05 (6) (b) 8. of the statutes is repealed.~~

SECTION 3. 71.05 (6) (b) 21. of the statutes is repealed.

SECTION 4. 71.05 (22) (dm) of the statutes is amended to read:

71.05 **(22)** (dm) *Deduction limits; 1994 ~~and thereafter~~ to 1999.* Except as provided in par. (f), for taxable years beginning ~~on or after January 1, 1994~~ after December 31, 1993, and before January 1, 2000, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $7,500, the standard deduction is $5,200. For a single individual who has a Wisconsin adjusted gross income of at least $7,500 but not more than $50,830, the standard deduction is the amount obtained by subtracting from $5,200 12% of Wisconsin adjusted gross income in excess of $7,500 but not less than $0. For a single individual who has a Wisconsin adjusted gross income of more than $50,830, the standard deduction is $0. For a head of household who has a Wisconsin adjusted gross income of less than $7,500, the standard deduction is $7,040. For a head of household who has a Wisconsin adjusted gross income of at least $7,500 but not more than $25,000, the standard deduction is the amount obtained by subtracting from $7,040 22.515% of Wisconsin adjusted gross income in excess of $7,500 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of more than $25,000, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $10,000, the standard deduction is $8,900. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $10,000 but not more than $55,000, the standard deduction is the amount obtained by subtracting from $8,900 19.778% of aggregate Wisconsin adjusted gross income in excess of

$10,000 but not less than $0. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of more than $55,000, the standard deduction is $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $4,750, the standard deduction is $4,230. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $4,750 but not more than $26,140, the standard deduction is the amount obtained by subtracting from $4,230 19.778% of Wisconsin adjusted gross income in excess of $4,750 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of more than $26,140, the standard deduction is $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 5. 71.05 (22) (dp) of the statutes is created to read:

71.05 **(22)** (dp) *Deduction limits, 2000 and thereafter.* Except as provided in par. (f), for taxable years beginning after December 31, 1999, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $7,200. For a single individual who has a Wisconsin adjusted gross income of at least $10,380 but not more than $70,380, the standard deduction is the amount obtained by subtracting from $7,200 12% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a single individual who has a Wisconsin adjusted gross income of more than $70,380, the standard deduction is $0. For a head of household who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $9,300. For a head of household who has a Wisconsin adjusted gross income of at least $10,380 but not more than $30,350, the standard deduction is the amount obtained by subtracting from $9,300 22.515% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of more than $30,350, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $14,570, the standard deduction is $12,970. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $14,570 but not more than $80,150, the standard deduction is the amount obtained by subtracting from $12,970 19.778% of aggregate Wisconsin adjusted gross income in excess of $14,570 but not less than $0. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of more than $80,150, the standard deduction is $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $6,920, the standard deduction is $6,160. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $6,920 but not more than $38,070, the standard deduction is the amount obtained by subtracting from $6,160 19.778% of Wisconsin adjusted gross income in excess of $6,920 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of more than $38,070, the standard deduction is $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 6. 71.05 (22) (ds) of the statutes is amended to read:

71.05 **(22)** (ds) *Standard deduction indexing.* For taxable years beginning after December 31, 1998, and before January 1, 2000, and for taxable years beginning after December 31, 2000, the dollar amounts of the standard deduction that is allowable under ~~par.~~ pars. (dm) and (dp) and all of the dollar amounts of Wisconsin adjusted gross income under ~~par.~~ pars. (dm) and (dp) shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.

SECTION 7. 71.05 (22) (f) 4. b. of the statutes is amended to read:

71.05 **(22)** (f) 4. b. The standard deduction that may be claimed by an individual under par. (dm) or (dp), based on the individual's filing status.

SECTION 8. 71.05 (23) of the statutes is created to read:

71.05 **(23)** PERSONAL EXEMPTIONS. In computing Wisconsin taxable income, an individual taxpayer may subtract the following amounts:

(a) For taxable years that begin after December 31, 1999, and before January 1, 2001:

1. A personal exemption of $600 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $600 for the taxpayer's spouse, except for a married individual who is filing separately or as a head of household.

2. An exemption of $600 for each individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $200 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $200 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except for a married individual who is filing separately or as a head of household.

(b) For taxable years that begin after December 31, 2000:

1. A personal exemption of $700 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $700 for the taxpayer's spouse, except for a married individual who is filing separately or as a head of household.

2. An exemption of $700 for an individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $250 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $250 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except for a married individual who is filing separately or as a head of household.

(c) With respect to persons who change their domicile into or from this state during the taxable year and nonresident persons, personal exemptions under pars. (a) and (b) shall be limited to the fraction of the amount so determined that Wisconsin adjusted gross income is of federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If a person and that person's spouse are not both domiciled in this state during the entire taxable year, their personal exemptions on a joint return are determined by multiplying the personal exemption that would be available to each of them if they were both domiciled in this state during the entire taxable year by a fraction the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 9. 71.06 (1m) (intro.) of the statutes is amended to read:

71.06 **(1m)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; ~~AFTER~~ 1997 <u>TO 1999</u>. (intro.) The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 1997<u>, and before January 1, 2000</u>:

SECTION 10. 71.06 (1n) of the statutes is created to read:

71.06 **(1n)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; 2000. The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 1999, and before January 1, 2001:

(a) On all taxable income from $0 to $7,500, ~~[illegible]~~ 4.75%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, ~~[illegible]~~ 6.35%.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.55%.

(d) On all taxable income exceeding $112,500, ~~[illegible]~~ 6.75%.

SECTION 11. 71.06 (1p) of the statutes is created to read:

71.06 **(1p)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; AFTER 2000. The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 2000:

(a) On all taxable income from $0 to $7,500, 4.6%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.15%.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.5%.

(d) On all taxable income exceeding $112,500, ~~6.7~~%. 6.75

SECTION 12. 71.06 (2) (c) (intro.) of the statutes is amended to read:

71.06 **(2)** (c) (intro.) For joint returns, for taxable years beginning after December 31, 1997, and before January 1, 2000:

SECTION 13. 71.06 (2) (d) (intro.) of the statutes is amended to read:

71.06 **(2)** (d) (intro.) For married persons filing separately, for taxable years beginning after December 31, 1997, and before January 1, 2000:

SECTION 14. 71.06 (2) (e) of the statutes is created to read:

71.06 **(2)** (e) For joint returns, for taxable years beginning after December 31, 1999, and before January 1, 2001:

1. On all taxable income from $0 to $10,000, 4.77%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.37%.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.55%.

4. On all taxable income exceeding $150,000, 6.7%.

SECTION 15. 71.06 (2) (f) of the statutes is created to read:

71.06 **(2)** (f) For married persons filing separately, for taxable years beginning after December 31, 1999, and before January 1, 2001:

1. On all taxable income from $0 to $5,000, 4.77%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.37%.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.55%.

4. On all taxable income exceeding $75,000, 6.7%.

SECTION 16. 71.06 (2) (g) of the statutes is created to read:

71.06 **(2)** (g) For joint returns, for taxable years beginning after December 31, 2000:

1. On all taxable income from $0 to $10,000, 4.6%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.15%.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.5%.

4. On all taxable income exceeding $150,000, 6.7%.

SECTION 17. 71.06 (2) (h) of the statutes is created to read:

71.06 **(2)** (h) For married persons filing separately, for taxable years beginning after December 31, 2000:

1. On all taxable income from $0 to $5,000, 4.6%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.15%.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.5%.

4. On all taxable income exceeding $75,000, 6.7%.

SECTION 18. 71.06 (2e) of the statutes is amended to read:

71.06 **(2e)** BRACKET INDEXING. For taxable years beginning after December 31, 1998, and before January 1, 2000, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1m) and (2) (c) and (d), and for taxable years beginning after December 31, 2001, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1p) and (2) (g) and (h), shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. Each amount that is revised under this subsection shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this subsection and incorporate the changes into the income tax forms and instructions.

SECTION 19. 71.06 (2m) of the statutes is amended to read:

71.06 **(2m)** RATE CHANGES. If a rate under sub. (1), (1m), (1n), (1p) or (2) changes during a taxable year, the taxpayer shall compute the tax for that taxable year by the methods applicable to the federal income tax under section 15 of the internal revenue code.

SECTION 20. 71.06 (2s) (b) of the statutes is amended to read:

71.06 **(2s)** (b) For taxable years beginning after December 31, 1997, and before January 1, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1m) and (2) (c) and (d) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1m) and (2) (c) and (d) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 21. 71.06 (2s) (c) of the statutes is created to read:

71.06 **(2s)** (c) For taxable years beginning after December 31, 1999, and before January 1, 2001, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1n) and (2) (e) and (f) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1n) and (2) (e) and (f) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 22. 71.06 (2s) (d) of the statutes is created to read:

71.06 **(2s)** (d) For taxable years beginning after December 31, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1p) and (2) (g) and (h) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1p) and (2) (g) and (h) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 23. 71.07 (5) (a) 7. of the statutes is created to read:

71.07 **(5)** (a) 7. Miscellaneous itemized deductions under the Internal Revenue Code, without regard to whether such deductions are subject to the 2% floor as described in section 67 of the Internal Revenue Code.

SECTION 24. 71.07 (5m) (e) of the statutes is created to read:

71.07 **(5m)** (e) *Sunset.* No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 25. 71.07 (6) (am) 2. c. of the statutes is amended to read:

71.07 **(6)** (am) 2. c. For taxable years beginning after December 31, 1999, and before January 1, 2001, 2.75% of the earned income of the spouse with the lower earned income, but not more than ~~$385~~ $440.

SECTION 26. 71.07 (6) (am) 2. d. of the statutes is amended to read:

71.07 **(6)** (am) 2. d. For taxable years beginning after December 31, 2000, 3% of the earned income of the spouse with the lower earned income, but not more than ~~$420~~ $480.

SECTION 27. 71.07 (8) (d) of the statutes is created to read:

71.07 **(8)** (d) No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 28. 71.07 (9) (g) of the statutes is created to read:

71.07 **(9)** (g) No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 29. 71.125 of the statutes is amended to read:

71.125 Imposition of tax. (1) Except as provided in sub. (2), the tax imposed by this chapter on individuals and the rates under s. 71.06 (1), (1m), (1n), (1p) and (2) shall apply to the Wisconsin taxable income of estates or trusts, except nuclear decommissioning trust or reserve funds, and that tax shall be paid by the fiduciary.

(2) Each electing small business trust, as defined in section 1361 (e) (1) of the Internal Revenue Code, is subject to tax at the highest rate under s. 71.06 (1) ~~or under s. 71.06~~, (1m), (1n) or (1p), whichever taxable year is applicable, on its income as computed under section 641 of the Internal Revenue Code, as modified by s. 71.05 (6) to (12), (19) and (20).

SECTION 30. 71.17 (6) of the statutes is amended to read:

71.17 **(6)** FUNERAL TRUSTS. If a qualified funeral trust makes the election under section 685 of the Internal Revenue Code for federal income tax purposes, that election applies for purposes of this chapter and each trust shall compute its own tax and shall apply the rates under s. 71.06 (1) ~~and~~, (1m), (1n) or (1p).

ins 16-18

SECTION 31. 71.64 (9) (b) of the statutes is amended to read:

71.64 **(9)** (b) The department shall from time to time adjust the withholding tables to reflect any changes in income tax rates, any applicable surtax or any changes in dollar amounts in s. 71.06 (1), (1m), (1n), (1p) and (2) resulting from statutory changes, except that the department may not adjust the withholding tables to reflect the changes in rates in s. 71.06 (1m), (1n), (1p) and (2) (c) ~~and~~, (d), (e), (f), (g) and (h) and any changes in dollar amounts with respect to bracket indexing under

s. 71.06 (2e) and with respect to standard deduction indexing under s. 71.05 (22) (ds) ~~for any taxable year that begins~~ before ~~January~~ July 1, 2000. The tables shall account for the working families tax credit under s. 71.07 (5m), subject to s. 71.07 (5m) (e). The tables shall be extended to cover from zero to 10 withholding exemptions, shall assume that the payment of wages in each pay period will, when multiplied by the number of pay periods in a year, reasonably reflect the annual wage of the employe from] the employer and shall be based on the further assumption that the annual wage will be reduced for allowable deductions from gross income. The department may determine the length of the tables and a reasonable span for each bracket. In preparing the tables the department shall adjust all withholding amounts not an exact multiple of 10 cents to the next highest figure that is a multiple of 10 cents. The department shall also provide instructions with the tables for withholding with respect to quarterly, semiannual and annual pay periods.

SECTION 32. 71.67 (4) (a) of the statutes is amended to read:

71.67 **(4)** (a) The administrator of the lottery division in the department under ch. 565 shall withhold from any lottery prize of $2,000 or more an amount determined by multiplying the amount of the prize by the highest rate applicable to individuals under s. 71.06 (1) ~~or~~, (1m), (1n) or (1p). The administrator shall deposit the amounts withheld, on a monthly basis, as would an employer depositing under s. 71.65 (3) (a).

SECTION 33. 71.67 (5) (a) of the statutes is amended to read:

71.67 **(5)** (a) *Wager winnings.* A person holding a license to sponsor and manage races under s. 562.05 (1) (b) or (c) shall withhold from the amount of any payment of pari–mutuel winnings under s. 562.065 (3) (a) or (3m) (a) an amount determined by multiplying the amount of the payment by the highest rate applicable to individuals under s. 71.06 (1) (a) to (c) ~~or~~, (1m), (1n) or (1p) if the amount of the payment is more than $1,000.

SECTION 9343. Initial applicability; revenue.

(1) MODIFICATION OF THE INDIVIDUAL INCOME TAX SYSTEM. The treatment of sections 71.01 (16), 71.05 (6) (b) ~~8. and~~ 21. and 71.07 (5) (a) 7. of the statutes first applies to taxable years beginning on January 1, 2000.

(END)

INS. ANL-1

STATE OF WISCONSIN – LEGISLATIVE REFERENCE BUREAU – LEGAL SECTION
(608–266–3561)

¶ Under current law, the department of revenue (DOR) may not adjust the withholding tables to reflect the changes made to the tax rates, changes in dollar amounts with respect to bracket indexing and with respect to standard deduction indexing for taxable years that begin before January 1, 2000. Under this bill, DOR may not adjust the withholding tables before July 1, 2000.

1999–2000 DRAFTING INSERT
FROM THE
LEGISLATIVE REFERENCE BUREAU

LRB–1917/P4ins
MES:kmg:ijs

Ins ANL – 2

Under current law, for claims filed in 1991 and thereafter, the homestead tax credit threshold income is $8,000, the maximum property taxes that a claimant may use in calculating his or her credit are $1,450 and the maximum income is $19,154. This bill changes current law starting with claims filed in 2000. Under this bill, for claims filed in 2000 and thereafter, the maximum income is raised to $22,500. The threshold income and maximum property taxes ~~remains~~ remain the same as under current law.

INS 16–18

SECTION 1. 71.54 (1) (d) (intro.) of the statutes is amended to read:

71.54 **(1)** (d) *1991 ~~and thereafter~~ to 1999.* (intro.) The amount of any claim filed in 1991 ~~and thereafter~~ to 1999 and based on property taxes accrued or rent constituting property taxes accrued during the previous year is limited as follows:

History: 1987 a. 312; 1989 a. 31, 198, 336; 1995 a. 27, 201, 289; 1997 a. 35.History: 1987 a. 312; 1989 a. 31, 198, 336; 1995 a. 27, 201, 289; 1997 a. 35.

SECTION 2. 71.54 (1) (e) of the statutes is created to read:

71.54 **(1)** (e) *2000 and thereafter.*

~~**SECTION 3.** 71.54 (1) (c) of the statutes is amended to read:~~

~~71.54 **(1)** (c) *1999.*~~ The amount of any claim filed in ~~1999~~ 2000 and thereafter and based on property taxes accrued or rent constituting property taxes accrued during the previous year is limited as follows:

1. If the household income was $8,000 or less in the year to which the claim relates, the claim is limited to 80% of the property taxes accrued or rent constituting property taxes accrued or both in that year on the claimant's homestead.

2. If the household income was more than $8,000 in the year to which the claim relates, the claim is limited to 80% of the amount by which the property taxes accrued or rent constituting property taxes accrued or both in that year on the claimant's homestead exceeds ~~11~~ 10% of the household income exceeding $8,000.

3. No credit may be allowed if the household income of a claimant exceeds $~~12,000~~. 22,500

History: 1987 a. 312; 1989 a. 31, 198, 336; 1995 a. 27, 201, 289; 1997 a. 35.**History:** 1987 a. 312; 1989 a. 31, 198, 336; 1995 a. 27, 201, 289; 1997 a. 35.

State of Wisconsin
1999 - 2000 LEGISLATURE

LRB–1917/P~~4~~5
MES:kmg:lp

fmp

DOA:......Gates–Hendrix – Eliminate certain tax credits; increase homestead; federalize soc. security treatment and the stnd deduction; change income tax rates, brackets; delay indexing, withholding changes; create a personal exemption

FOR 1999–01 BUDGET — NOT READY FOR INTRODUCTION

Ed, WPO: only changes are on p. 9

do not gen

AN ACT...; **relating to:** eliminating the school property tax credit, eliminating the working families tax credit, eliminating miscellaneous deductions from the itemized deductions credit, increasing the married persons tax credit, federalizing the treatment of social security, increasing the maximum income for the homestead tax credit, federalizing the standard deduction, suspending the indexing of the standard deduction and individual income tax brackets, delaying changes to the withholding tables, changing individual income tax rates and brackets and creating a personal individual income tax exemption.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

This bill makes various changes in the structure of the individual income tax system. The bill modifies the calculation of adjusted gross income (AGI), prohibits new claims from being made under certain income tax credits, creates a personal exemption, modifies the itemized deductions credit and modifies the sliding scale standard deduction and the tax rates and brackets.

Under current law, the standard income tax deduction has four different categories, each of which has a different deduction amount based on income. The maximum standard deduction amounts in each category phase out as income increases. The categories, the maximum standard deduction amounts and the maximum income amounts to which the standard deduction applies before the phaseout begins are the following: single individuals, $5,200 on Wisconsin AGI (WAGI) of less than $7,500; heads of households, $7,040 on WAGI of less than $7,500; married couples filing jointly, $8,900 on WAGI of less than $10,000; and married couples filing separately, $4,230 on WAGI of less than $4,750.

This bill retains the same four categories and increases the maximum income at which the standard deduction reaches $0. Under this bill, for taxable years beginning after December 31, 1999, the categories, the maximum standard deduction amounts and the maximum income amounts to which the standard deduction applies before the phaseout begins are the following: single individuals, $7,200 on WAGI of less than $10,380; heads of households, $9,300 on WAGI of less than $10,380; married couples filing jointly, $12,970 on WAGI of less than $14,570; and married couples filing separately, $6,160 on WAGI of less than $6,920.

Under current law, the dollar amounts of the standard deduction and the dollar amounts of WAGI are indexed for inflation for taxable years that begin after December 31, 1998. The bill suspends indexing for taxable year 2000.

Under current law, there are three income tax brackets for single individuals, certain fiduciaries, heads of households and married persons. The brackets for single individuals, certain fiduciaries and heads of households are taxable income from $0 to $7,500; from more than $7,500 to $15,000; and more than $15,000. The brackets for married persons filing jointly are taxable income from $0 to $10,000; from more than $10,000 to $20,000; and more than $20,000. The brackets for married persons filing separately are taxable income from $0 to $5,000; from more than $5,000 to $10,000; and more than $10,000.

The rate of taxation under current law for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.77% of taxable income, the rate for the middle bracket is 6.37% and the rate for the highest bracket is 6.77%.

This bill expands the number of brackets to four and lowers the rate of taxation in all four brackets in taxable year 2000. The bill also lowers the rate of taxation for taxable year 2001 and all taxable years thereafter for the first three brackets. Under the bill, the brackets for single individuals, certain fiduciaries and heads of households for taxable year 2000 are taxable income from $0 to $7,500; from more than $7,500 to $15,000; from more than $15,000 to $112,500; and more than $112,500. The brackets for married persons filing jointly are taxable income from $0 to $10,000; from more than $10,000 to $20,000; from more than $20,000 to $150,000; and more than $150,000. The brackets for married persons filing separately are taxable income from $0 to $5,000; from more than $5,000 to $10,000; from more than $10,000 to $75,000; and more than $75,000. The brackets remain the same for taxable year 2001 and are indexed for inflation in taxable years thereafter.

Under this bill, for taxable year 2000, the rate of taxation for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.77% of taxable income, the rate for the next bracket is 6.37%, the rate for the next bracket is 6.55% and the rate for the highest bracket is 6.7%.

Under this bill, for taxable year 2001 and all taxable years thereafter, the rate of taxation for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.6% of taxable income, the rate for the next bracket is 6.15%, the rate for the next bracket is 6.5% and the rate for the highest bracket remains at 6.7%.

Under current law, the individual income tax brackets are indexed for inflation for taxable years beginning after December 31, 1998. This bill suspends indexing until taxable years beginning after December 31, 2001.

Under current law, after an individual calculates his or her gross tax liability, several tax credits may be calculated to reduce his or her gross tax liability. Some credits, like the earned income tax credit and the homestead tax credit, are refundable. Some credits, like the school property tax credit, the working families tax credit and the married persons credit, are nonrefundable. Generally, with a refundable credit, if the amount of the claim exceeds the taxpayer's tax liability, or if there is no tax due, the excess amount of the credit is paid to the claimant by a check from the state. With a nonrefundable credit, the amount of the credit is available only up to the amount of the taxpayer's tax liability.

Under this bill, for taxable years beginning after December 31, 1999, no new claims may be filed for the following nonrefundable tax credits: the school property tax credit, the working families tax credit, the dependent credit and the senior credit. The bill does not affect any of the refundable tax credits. In addition, the bill increases the married persons tax credit from a maximum credit of $385 to $420 in taxable year 2000 and from a maximum of $420 to $480 in taxable years beginning after December 31, 2000.

Under current law, the department of revenue (DOR) may not adjust the withholding tables to reflect the changes made to the tax rates, changes in dollar amounts with respect to bracket indexing and with respect to standard deduction indexing for taxable years that begin before January 1, 2000. Under this bill, DOR may not adjust the withholding tables before July 1, 2000.

Under current law, for claims filed in 1991 and thereafter, the homestead tax credit threshold income is $8,000, the maximum property taxes that a claimant may use in calculating his or her credit are $1,450 and the maximum income is $19,154. This bill changes current law starting with claims filed in 2000. Under this bill, for claims filed in 2000 and thereafter, the maximum income is raised to $22,500. The threshold income and maximum property taxes remain the same as under current law.

This bill also modifies the nonrefundable itemized deductions credit. Under current law, the itemized deductions credit is calculated as 5% of the difference between the sum of certain amounts that are allowed as itemized deductions under the Internal Revenue Code and the standard deduction. Some amounts that are allowed as itemized deductions under the Internal Revenue Code, such as casualty and theft deductions and interest incurred to purchase or refinance a residence that is not a principal residence and that is not located in this state, are not allowed in the calculation of the itemized deductions credit. Under this bill, miscellaneous itemized deductions that are allowed as itemized deductions under the Internal Revenue Code are not allowed under the itemized deductions credit.

The bill creates a personal exemption for a taxpayer, the taxpayer's spouse and the taxpayer's dependents. The personal exemption is $600 for each of these persons in taxable year 2000 and $700 for taxable years that begin after December 31, 2000. An additional personal exemption exists for taxpayers who are at least 65 years old. This additional exemption is $200 for taxable year 2000 and $250 for taxable years that begin after December 31, 2000.

In general, under current law, 50% of certain social security benefits are taxed by this state once the recipient's income reaches $34,000 for a single individual or $44,000 for a married couple filing jointly, while the federal government taxes 85% of these same benefits. This bill repeals the state's treatment of social security benefits, thus taxing the benefits at the same rate as the federal government.

This bill will be referred to the joint survey committee on tax exemptions for a detailed analysis, which will be printed as an appendix to this bill.

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

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

SECTION 1. 71.01 (16) of the statutes is amended to read:

71.01 **(16)** "Wisconsin taxable income" of natural persons means Wisconsin adjusted gross income less the Wisconsin standard deduction, <u>less the personal exemption described under s. 71.05 (23),</u> with losses, depreciation, recapture of benefits, offsets, depletion, deductions, penalties, expenses and other negative income items determined according to the manner that income is or would be allocated, except that the negative income items on individual or separate returns for net rents and other net returns which are marital property attributable to the investment, rental, licensing or other use of nonmarital property shall be allocated to the owner of the property.

SECTION 2. 71.05 (6) (b) 21. of the statutes is repealed.

SECTION 3. 71.05 (22) (dm) of the statutes is amended to read:

71.05 **(22)** (dm) *Deduction limits; 1994 ~~and thereafter~~ to 1999.* Except as provided in par. (f), for taxable years beginning ~~on or after January 1, 1994~~ after December 31, 1993, and before January 1, 2000, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $7,500, the standard deduction is $5,200. For a single individual who has a Wisconsin adjusted gross income of at least $7,500 but not more than $50,830, the standard deduction is the amount obtained by subtracting from $5,200 12% of Wisconsin adjusted gross income in excess of $7,500 but not less than $0. For a single individual who has a Wisconsin adjusted gross income of more than $50,830, the standard deduction is $0. For a head of household who has a Wisconsin adjusted gross income of less than $7,500, the standard deduction is $7,040. For a head of household who has a Wisconsin adjusted gross income of at least $7,500 but not more than $25,000, the standard deduction is the amount obtained by subtracting from $7,040 22.515% of Wisconsin adjusted gross income in excess of $7,500 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of more than $25,000, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $10,000, the standard deduction is $8,900. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $10,000 but not more than $55,000, the standard deduction is the amount obtained by subtracting from $8,900 19.778% of aggregate Wisconsin adjusted gross income in excess of $10,000 but not less than $0. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of more than $55,000, the standard deduction is $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $4,750, the standard deduction is $4,230. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $4,750 but not more than $26,140, the standard deduction is the amount obtained by subtracting from $4,230 19.778% of Wisconsin adjusted gross income in excess of $4,750 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of more than $26,140, the standard deduction is $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 4. 71.05 (22) (dp) of the statutes is created to read:

71.05 **(22)** (dp) *Deduction limits, 2000 and thereafter.* Except as provided in par. (f), for taxable years beginning after December 31, 1999, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $7,200. For a single individual who has a Wisconsin adjusted gross income of at least $10,380 but not more than $70,380, the standard deduction is the amount obtained by subtracting from $7,200 12% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a single individual who has a

Wisconsin adjusted gross income of more than $70,380, the standard deduction is $0. For a head of household who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $9,300. For a head of household who has a Wisconsin adjusted gross income of at least $10,380 but not more than $30,350, the standard deduction is the amount obtained by subtracting from $9,300 22.515% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of more than $30,350, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $14,570, the standard deduction is $12,970. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $14,570 but not more than $80,150, the standard deduction is the amount obtained by subtracting from $12,970 19.778% of aggregate Wisconsin adjusted gross income in excess of $14,570 but not less than $0. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of more than $80,150, the standard deduction is $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $6,920, the standard deduction is $6,160. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $6,920 but not more than $38,070, the standard deduction is the amount obtained by subtracting from $6,160 19.778% of Wisconsin adjusted gross income in excess of $6,920 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of more than $38,070, the standard deduction is $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 5. 71.05 (22) (ds) of the statutes is amended to read:

71.05 **(22)** (ds) *Standard deduction indexing.* For taxable years beginning after December 31, 1998, and before January 1, 2000, and for taxable years beginning after December 31, 2000, the dollar amounts of the standard deduction that is allowable under ~~par.~~ pars. (dm) and (dp) and all of the dollar amounts of Wisconsin adjusted gross income under ~~par.~~ pars. (dm) and (dp) shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.

SECTION 6. 71.05 (22) (f) 4. b. of the statutes is amended to read:

71.05 **(22)** (f) 4. b. The standard deduction that may be claimed by an individual under par. (dm) or (dp), based on the individual's filing status.

SECTION 7. 71.05 (23) of the statutes is created to read:

71.05 **(23)** PERSONAL EXEMPTIONS. In computing Wisconsin taxable income, an individual taxpayer may subtract the following amounts:

(a) For taxable years that begin after December 31, 1999, and before January 1, 2001:

1. A personal exemption of $600 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $600 for the taxpayer's spouse, except ~~for a married individual who~~ is filing separately or as a head of household.

2. An exemption of $600 for each individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $200 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $200 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except if the spouse ~~for a married individual who~~ is filing separately or as a head of household.

(b) For taxable years that begin after December 31, 2000:

1. A personal exemption of $700 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $700 for the taxpayer's spouse, except if the spouse ~~for a married individual who~~ is filing separately or as a head of household.

2. An exemption of $700 for ~~an~~ each individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $250 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $250 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except ~~for a married individual who~~ is filing separately or as a head of household.

(c) With respect to persons who change their domicile into or from this state during the taxable year and nonresident persons, personal exemptions under pars. (a) and (b) shall be limited to the fraction of the amount so determined that Wisconsin adjusted gross income is of federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If a person and that person's spouse are not both domiciled in this state during the entire taxable year, their personal exemptions on a joint return are determined by multiplying the personal exemption that would be available to each of them if they were both domiciled in this state during the entire taxable year by a fraction the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 8. 71.06 (1m) (intro.) of the statutes is amended to read:

71.06 **(1m)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; ~~AFTER~~ 1997 TO 1999. (intro.) The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 1997, and before January 1, 2000:

SECTION 9. 71.06 (1n) of the statutes is created to read:

71.06 **(1n)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; 2000. The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 1999, and before January 1, 2001:

(a) On all taxable income from $0 to $7,500, 4.75%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.35%.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.55%.

(d) On all taxable income exceeding $112,500, 6.75%.

SECTION 10. 71.06 (1p) of the statutes is created to read:

71.06 **(1p)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; AFTER 2000. The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 2000:

(a) On all taxable income from $0 to $7,500, 4.6%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.15%.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.5%.

(d) On all taxable income exceeding $112,500, 6.75%.

SECTION 11. 71.06 (2) (c) (intro.) of the statutes is amended to read:

71.06 **(2)** (c) (intro.) For joint returns, for taxable years beginning after December 31, 1997<u>, and before January 1, 2000</u>:

SECTION 12. 71.06 (2) (d) (intro.) of the statutes is amended to read:

71.06 **(2)** (d) (intro.) For married persons filing separately, for taxable years beginning after December 31, 1997<u>, and before January 1, 2000</u>:

SECTION 13. 71.06 (2) (e) of the statutes is created to read:

71.06 **(2)** (e) For joint returns, for taxable years beginning after December 31, 1999, and before January 1, 2001:

1. On all taxable income from $0 to $10,000, 4.77%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.37%.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.55%.

4. On all taxable income exceeding $150,000, 6.7%.

SECTION 14. 71.06 (2) (f) of the statutes is created to read:

71.06 **(2)** (f) For married persons filing separately, for taxable years beginning after December 31, 1999, and before January 1, 2001:

1. On all taxable income from $0 to $5,000, 4.77%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.37%.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.55%.

4. On all taxable income exceeding $75,000, 6.7%.

SECTION 15. 71.06 (2) (g) of the statutes is created to read:

71.06 **(2)** (g) For joint returns, for taxable years beginning after December 31, 2000:

1. On all taxable income from $0 to $10,000, 4.6%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.15%.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.5%.

4. On all taxable income exceeding $150,000, 6.7%.

SECTION 16. 71.06 (2) (h) of the statutes is created to read:

71.06 **(2)** (h) For married persons filing separately, for taxable years beginning after December 31, 2000:

1. On all taxable income from $0 to $5,000, 4.6%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.15%.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.5%.

4. On all taxable income exceeding $75,000, 6.7%.

SECTION 17. 71.06 (2e) of the statutes is amended to read:

71.06 **(2e)** BRACKET INDEXING. For taxable years beginning after December 31, 1998, <u>and before January 1, 2000,</u> the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1m) and (2) (c) and (d), and for taxable years beginning after December 31, 2001, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1p) and (2) (g) and (h), shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. Each amount that is revised under this subsection shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this subsection and incorporate the changes into the income tax forms and instructions.

SECTION 18. 71.06 (2m) of the statutes is amended to read:

71.06 **(2m)** RATE CHANGES. If a rate under sub. (1), (1m), (1n), (1p) or (2) changes during a taxable year, the taxpayer shall compute the tax for that taxable year by the methods applicable to the federal income tax under section 15 of the internal revenue code.

SECTION 19. 71.06 (2s) (b) of the statutes is amended to read:

71.06 **(2s)** (b) For taxable years beginning after December 31, 1997, and before January 1, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1m) and (2) (c) and (d) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1m) and (2) (c) and (d) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 20. 71.06 (2s) (c) of the statutes is created to read:

71.06 **(2s)** (c) For taxable years beginning after December 31, 1999, and before January 1, 2001, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1n) and (2) (e) and (f) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1n) and (2) (e) and (f) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 21. 71.06 (2s) (d) of the statutes is created to read:

71.06 **(2s)** (d) For taxable years beginning after December 31, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1p) and (2) (g) and (h) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1p) and (2) (g) and (h) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 22. 71.07 (5) (a) 7. of the statutes is created to read:

71.07 **(5)** (a) 7. Miscellaneous itemized deductions under the Internal Revenue Code, without regard to whether such deductions are subject to the 2% floor as described in section 67 of the Internal Revenue Code.

SECTION 23. 71.07 (5m) (e) of the statutes is created to read:

71.07 **(5m)** (e) *Sunset.* No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 24. 71.07 (6) (am) 2. c. of the statutes is amended to read:

71.07 **(6)** (am) 2. c. For taxable years beginning after December 31, 1999, and before January 1, 2001, 2.75% of the earned income of the spouse with the lower earned income, but not more than ~~$385~~ $440.

SECTION 25. 71.07 (6) (am) 2. d. of the statutes is amended to read:

71.07 **(6)** (am) 2. d. For taxable years beginning after December 31, 2000, 3% of the earned income of the spouse with the lower earned income, but not more than ~~$420~~ $480.

SECTION 26. 71.07 (8) (d) of the statutes is created to read:

71.07 **(8)** (d) No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 27. 71.07 (9) (g) of the statutes is created to read:

71.07 **(9)** (g) No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 28. 71.125 of the statutes is amended to read:

71.125 Imposition of tax. (1) Except as provided in sub. (2), the tax imposed by this chapter on individuals and the rates under s. 71.06 (1), (1m), (1n), (1p) and (2) shall apply to the Wisconsin taxable income of estates or trusts, except nuclear decommissioning trust or reserve funds, and that tax shall be paid by the fiduciary.

(2) Each electing small business trust, as defined in section 1361 (e) (1) of the Internal Revenue Code, is subject to tax at the highest rate under s. 71.06 (1) ~~or under s. 71.06~~, (1m), (1n) or (1p), whichever taxable year is applicable, on its income as computed under section 641 of the Internal Revenue Code, as modified by s. 71.05 (6) to (12), (19) and (20).

SECTION 29. 71.17 (6) of the statutes is amended to read:

71.17 **(6)** FUNERAL TRUSTS. If a qualified funeral trust makes the election under section 685 of the Internal Revenue Code for federal income tax purposes, that election applies for purposes of this chapter and each trust shall compute its own tax and shall apply the rates under s. 71.06 (1) ~~and~~, (1m), (1n) or (1p).

SECTION 30. 71.54 (1) (d) (intro.) of the statutes is amended to read:

71.54 **(1)** (d) *1991 ~~and thereafter~~ to 1999.* (intro.) The amount of any claim filed in 1991 ~~and thereafter~~ to 1999 and based on property taxes accrued or rent constituting property taxes accrued during the previous year is limited as follows:

SECTION 31. 71.54 (1) (e) of the statutes is created to read:

71.54 **(1)** (e) *2000 and thereafter.* The amount of any claim filed in 2000 and thereafter and based on property taxes accrued or rent constituting property taxes accrued during the previous year is limited as follows:

1. If the household income was $8,000 or less in the year to which the claim relates, the claim is limited to 80% of the property taxes accrued or rent constituting property taxes accrued or both in that year on the claimant's homestead.

2. If the household income was more than $8,000 in the year to which the claim relates, the claim is limited to 80% of the amount by which the property taxes accrued or rent constituting property taxes accrued or both in that year on the claimant's homestead exceeds 10% of the household income exceeding $8,000.

3. No credit may be allowed if the household income of a claimant exceeds $22,500.

SECTION 32. 71.64 (9) (b) of the statutes is amended to read:

71.64 **(9)** (b) The department shall from time to time adjust the withholding tables to reflect any changes in income tax rates, any applicable surtax or any changes in dollar amounts in s. 71.06 (1), (1m), (1n), (1p) and (2) resulting from statutory changes, except that the department may not adjust the withholding tables to reflect the changes in rates in s. 71.06 (1m), (1n), (1p) and (2) (c) ~~and~~, (d), (e), (f), (g) and (h) and any changes in dollar amounts with respect to bracket indexing under s. 71.06 (2e) and with respect to standard deduction indexing under s. 71.05 (22) (ds) ~~for any taxable year that begins~~ before ~~January~~ July 1, 2000. The tables shall account for the working families tax credit under s. 71.07 (5m), subject to s. 71.07 (5m) (e). The tables shall be extended to cover from zero to 10 withholding exemptions, shall assume that the payment of wages in each pay period will, when multiplied by the number of pay periods in a year, reasonably reflect the annual wage of the employe from] the employer and shall be based on the further assumption that the annual wage will be reduced for allowable deductions from gross income. The department may determine the length of the tables and a reasonable span for each bracket. In preparing the tables the department shall adjust all withholding amounts not an exact multiple of 10 cents to the next highest figure that is a multiple of 10 cents. The department shall also provide instructions with the tables for withholding with respect to quarterly, semiannual and annual pay periods.

SECTION 33. 71.67 (4) (a) of the statutes is amended to read:

71.67 **(4)** (a) The administrator of the lottery division in the department under ch. 565 shall withhold from any lottery prize of $2,000 or more an amount determined by multiplying the amount of the prize by the highest rate applicable to individuals under s. 71.06 (1) ~~or~~, (1m), (1n) or (1p). The administrator shall deposit the amounts withheld, on a monthly basis, as would an employer depositing under s. 71.65 (3) (a).

SECTION 34. 71.67 (5) (a) of the statutes is amended to read:

71.67 **(5)** (a) *Wager winnings.* A person holding a license to sponsor and manage races under s. 562.05 (1) (b) or (c) shall withhold from the amount of any payment of pari–mutuel winnings under s. 562.065 (3) (a) or (3m) (a) an amount determined by multiplying the amount of the payment by the highest rate applicable to individuals under s. 71.06 (1) (a) to (c) ~~or~~, (1m), (1n) or (1p) if the amount of the payment is more than $1,000.

SECTION 9343. Initial applicability; revenue.

(1) MODIFICATION OF THE INDIVIDUAL INCOME TAX SYSTEM. The treatment of sections 71.01 (16), 71.05 (6) (b) 21. and 71.07 (5) (a) 7. of the statutes first applies to taxable years beginning on January 1, 2000.

(END)

State of Wisconsin
1999 - 2000 LEGISLATURE

LRB-1917/P6
MES:kmg:jf

FMR

DOA:......Gates-Hendrix – Eliminate certain tax credits; increase homestead; federalize soc. security treatment and the stnd deduction; change income tax rates, brackets; delay indexing, withholding changes; create a personal exemption

FOR 1999-01 BUDGET — NOT READY FOR INTRODUCTION

Today

Arnie gen

AN ACT ...; **relating to:** eliminating the school property tax credit, eliminating the working families tax credit, eliminating miscellaneous deductions from the itemized deductions credit, increasing the married persons tax credit, federalizing the treatment of social security, increasing the maximum income for the homestead tax credit, federalizing the standard deduction, suspending the indexing of the standard deduction and individual income tax brackets, delaying changes to the withholding tables, changing individual income tax rates and brackets and creating a personal individual income tax exemption.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

This bill makes various changes in the structure of the individual income tax system. The bill modifies the calculation of adjusted gross income (AGI), prohibits new claims from being made under certain income tax credits, creates a personal exemption, modifies the itemized deductions credit and modifies the sliding scale standard deduction and the tax rates and brackets.

Under current law, the standard income tax deduction has four different categories, each of which has a different deduction amount based on income. The maximum standard deduction amounts in each category phase out as income increases. The categories, the maximum standard deduction amounts and the maximum income amounts to which the standard deduction applies before the phaseout begins are the following: single individuals, $5,200 on Wisconsin AGI (WAGI) of less than $7,500; heads of households, $7,040 on WAGI of less than $7,500; married couples filing jointly, $8,900 on WAGI of less than $10,000; and married couples filing separately, $4,230 on WAGI of less than $4,750.

This bill retains the same four categories and increases the maximum income at which the standard deduction reaches $0. Under this bill, for taxable years beginning after December 31, 1999, the categories, the maximum standard deduction amounts and the maximum income amounts to which the standard deduction applies before the phaseout begins are the following: single individuals, $7,200 on WAGI of less than $10,380; heads of households, $9,300 on WAGI of less than $10,380; married couples filing jointly, $12,970 on WAGI of less than $14,570; and married couples filing separately, $6,160 on WAGI of less than $6,920.

Under current law, the dollar amounts of the standard deduction and the dollar amounts of WAGI are indexed for inflation for taxable years that begin after December 31, 1998. The bill suspends indexing for taxable year 2000.

Under current law, there are three income tax brackets for single individuals, certain fiduciaries, heads of households and married persons. The brackets for single individuals, certain fiduciaries and heads of households are taxable income from $0 to $7,500; from more than $7,500 to $15,000; and more than $15,000. The brackets for married persons filing jointly are taxable income from $0 to $10,000; from more than $10,000 to $20,000; and more than $20,000. The brackets for married persons filing separately are taxable income from $0 to $5,000; from more than $5,000 to $10,000; and more than $10,000.

The rate of taxation under current law for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.77% of taxable income, the rate for the middle bracket is 6.37% and the rate for the highest bracket is 6.77%.

This bill expands the number of brackets to four and lowers the rate of taxation in all four brackets in taxable year 2000. The bill also lowers the rate of taxation for taxable year 2001 and all taxable years thereafter for the first three brackets. Under the bill, the brackets for single individuals, certain fiduciaries and heads of households for taxable year 2000 are taxable income from $0 to $7,500; from more than $7,500 to $15,000; from more than $15,000 to $112,500; and more than $112,500. The brackets for married persons filing jointly are taxable income from $0 to $10,000; from more than $10,000 to $20,000; from more than $20,000 to $150,000; and more than $150,000. The brackets for married persons filing separately are taxable income from $0 to $5,000; from more than $5,000 to $10,000; from more than

6.35

$10,000 to $75,000; and more than $75,000. The brackets remain the same for taxable year 2001 and are indexed for inflation in taxable years thereafter.

Under this bill, for taxable year 2000, the rate of taxation for the lowest bracket ~~for single~~ individuals, certain fiduciaries, heads of households and married persons is ~~4.77%~~ 4.75 of taxable income, the rate for the next bracket is ~~6.37%~~ 6.35, the rate for the next bracket is 6.55% and the rate for the highest bracket is ~~6.77%~~. 6.75

Under this bill, for taxable year 2001 and all taxable years thereafter, the rate of taxation for the lowest bracket for single individuals, certain fiduciaries, heads of households and married persons is 4.6% of taxable income, the rate for the next bracket is 6.15%, the rate for the next bracket is 6.5% and the rate for the highest bracket remains at ~~6.77%~~. 6.75

Under current law, the individual income tax brackets are indexed for inflation for taxable years beginning after December 31, 1998. This bill suspends indexing until taxable years beginning after December 31, 2001.

Under current law, after an individual calculates his or her gross tax liability, several tax credits may be calculated to reduce his or her gross tax liability. Some credits, like the earned income tax credit and the homestead tax credit, are refundable. Some credits, like the school property tax credit, the working families tax credit and the married persons credit, are nonrefundable. Generally, with a refundable credit, if the amount of the claim exceeds the taxpayer's tax liability, or if there is no tax due, the excess amount of the credit is paid to the claimant by a check from the state. With a nonrefundable credit, the amount of the credit is available only up to the amount of the taxpayer's tax liability.

Under this bill, for taxable years beginning after December 31, 1999, no new claims may be filed for the following nonrefundable tax credits: the school property tax credit, the working families tax credit, the dependent credit and the senior credit. The bill does not affect any of the refundable tax credits. In addition, the bill increases the married persons tax credit from a maximum credit of $385 to ~~$420~~ 440 in taxable year 2000 and from a maximum of $420 to $480 in taxable years beginning after December 31, 2000.

Under current law, the department of revenue (DOR) may not adjust the withholding tables to reflect the changes made to the tax rates, changes in dollar amounts with respect to bracket indexing and with respect to standard deduction indexing for taxable years that begin before January 1, 2000. Under this bill, DOR ~~may not~~ must adjust the withholding tables to reflect the changes made to the tax rates and changes in dollar amounts with respect to bracket indexing that are made in this bill ~~before~~ on July 1, 2000.

Under current law, for claims filed in 1991 and thereafter, the homestead tax credit threshold income is $8,000, the maximum property taxes that a claimant may use in calculating his or her credit are $1,450 and the maximum income is $19,154. This bill changes current law starting with claims filed in 2000. Under this bill, for claims filed in 2000 and thereafter, the maximum income is raised to $22,500. The threshold income and maximum property taxes remain the same as under current law.

This bill also modifies the nonrefundable itemized deductions credit. Under current law, the itemized deductions credit is calculated as 5% of the difference between the sum of certain amounts that are allowed as itemized deductions under the Internal Revenue Code and the standard deduction. Some amounts that are allowed as itemized deductions under the Internal Revenue Code, such as casualty and theft deductions and interest incurred to purchase or refinance a residence that is not a principal residence and that is not located in this state, are not allowed in the calculation of the itemized deductions credit. Under this bill, miscellaneous itemized deductions that are allowed as itemized deductions under the Internal Revenue Code are not allowed under the itemized deductions credit.

The bill creates a personal exemption for a taxpayer, the taxpayer's spouse and the taxpayer's dependents. The personal exemption is $600 for each of these persons in taxable year 2000 and $700 for taxable years that begin after December 31, 2000. An additional personal exemption exists for taxpayers who are at least 65 years old. This additional exemption is $200 for taxable year 2000 and $250 for taxable years that begin after December 31, 2000.

In general, under current law, 50% of certain social security benefits are taxed by this state once the recipient's income reaches $34,000 for a single individual or $44,000 for a married couple filing jointly, while the federal government taxes 85% of these same benefits. This bill repeals the state's treatment of social security benefits, thus taxing the benefits at the same rate as the federal government.

This bill will be referred to the joint survey committee on tax exemptions for a detailed analysis, which will be printed as an appendix to this bill.

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

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

SECTION 1. 71.01 (16) of the statutes is amended to read:

71.01 **(16)** "Wisconsin taxable income" of natural persons means Wisconsin adjusted gross income less the Wisconsin standard deduction, <u>less the personal exemption described under s. 71.05 (23),</u> with losses, depreciation, recapture of benefits, offsets, depletion, deductions, penalties, expenses and other negative income items determined according to the manner that income is or would be allocated, except that the negative income items on individual or separate returns for net rents and other net returns which are marital property attributable to the investment, rental, licensing or other use of nonmarital property shall be allocated to the owner of the property.

SECTION 2. 71.05 (6) (b) 21. of the statutes is repealed.

SECTION 3. 71.05 (22) (dm) of the statutes is amended to read:

71.05 **(22)** (dm) *Deduction limits; 1994 ~~and thereafter~~ to 1999.* Except as provided in par. (f), for taxable years beginning ~~on or after January 1, 1994~~ after December 31, 1993, and before January 1, 2000, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $7,500, the standard deduction is $5,200. For a single individual who has a Wisconsin adjusted gross income of at least $7,500 but not more than $50,830, the standard deduction is the amount obtained by subtracting from $5,200 12% of Wisconsin adjusted gross income in excess of $7,500 but not less than $0. For a single individual who has a Wisconsin adjusted gross income of more than $50,830, the standard deduction is $0. For a head of household who has a Wisconsin adjusted gross income of less than $7,500, the standard deduction is $7,040. For a head of household who has a Wisconsin adjusted gross income of at least $7,500 but not more than $25,000, the standard deduction is the amount obtained by subtracting from $7,040 22.515% of Wisconsin adjusted gross income in excess of $7,500 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of more than $25,000, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $10,000, the standard deduction is $8,900. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $10,000 but not more than $55,000, the standard deduction is the amount obtained by subtracting from $8,900 19.778% of aggregate Wisconsin adjusted gross income in excess of $10,000 but not less than $0. For a married couple filing jointly that has an aggregate

Wisconsin adjusted gross income of more than $55,000, the standard deduction is $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $4,750, the standard deduction is $4,230. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $4,750 but not more than $26,140, the standard deduction is the amount obtained by subtracting from $4,230 19.778% of Wisconsin adjusted gross income in excess of $4,750 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of more than $26,140, the standard deduction is $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 4. 71.05 (22) (dp) of the statutes is created to read:

71.05 **(22)** (dp) *Deduction limits, 2000 and thereafter.* Except as provided in par. (f), for taxable years beginning after December 31, 1999, the Wisconsin standard deduction is whichever of the following amounts is appropriate. For a single individual who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $7,200. For a single individual who has a Wisconsin adjusted gross income of at least $10,380 but not more than $70,380, the standard deduction is the amount obtained by subtracting from $7,200 12% of Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a single individual who has a Wisconsin adjusted gross income of more than $70,380, the standard deduction is $0. For a head of household who has a Wisconsin adjusted gross income of less than $10,380, the standard deduction is $9,300. For a head of household who has a Wisconsin adjusted gross income of at least $10,380 but not more than $30,350, the standard deduction is the amount obtained by subtracting from $9,300 22.515% of

Wisconsin adjusted gross income in excess of $10,380 but not less than $0. For a head of household who has a Wisconsin adjusted gross income of more than $30,350, the standard deduction shall be calculated as if the head of household were a single individual. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of less than $14,570, the standard deduction is $12,970. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of at least $14,570 but not more than $80,150, the standard deduction is the amount obtained by subtracting from $12,970 19.778% of aggregate Wisconsin adjusted gross income in excess of $14,570 but not less than $0. For a married couple filing jointly that has an aggregate Wisconsin adjusted gross income of more than $80,150, the standard deduction is $0. For a married individual filing separately who has a Wisconsin adjusted gross income of less than $6,920, the standard deduction is $6,160. For a married individual filing separately who has a Wisconsin adjusted gross income of at least $6,920 but not more than $38,070, the standard deduction is the amount obtained by subtracting from $6,160 19.778% of Wisconsin adjusted gross income in excess of $6,920 but not less than $0. For a married individual filing separately who has a Wisconsin adjusted gross income of more than $38,070, the standard deduction is $0. The secretary of revenue shall prepare a table under which deductions under this paragraph shall be determined. That table shall be published in the department's instructional booklets.

SECTION 5. 71.05 (22) (ds) of the statutes is amended to read:

71.05 **(22)** (ds) *Standard deduction indexing.* For taxable years beginning after December 31, 1998, and before January 1, 2000, and for taxable years beginning after December 31, 2000, the dollar amounts of the standard deduction that is allowable under ~~par.~~ pars. (dm) and (dp) and all of the dollar amounts of Wisconsin adjusted gross income under ~~par.~~ <u>pars.</u> (dm) <u>and (dp)</u> shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. Each amount that is revised under this paragraph shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this paragraph and incorporate the changes into the income tax forms and instructions.

SECTION 6. 71.05 (22) (f) 4. b. of the statutes is amended to read:

71.05 **(22)** (f) 4. b. The standard deduction that may be claimed by an individual under par. (dm) <u>or (dp)</u>, based on the individual's filing status.

SECTION 7. 71.05 (23) of the statutes is created to read:

71.05 **(23)** PERSONAL EXEMPTIONS. In computing Wisconsin taxable income, an individual taxpayer may subtract the following amounts:

(a) For taxable years that begin after December 31, 1999, and before January 1, 2001:

1. A personal exemption of $600 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $600 for the taxpayer's spouse, except if the spouse is filing separately or as a head of household.

2. An exemption of $600 for each individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $200 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $200 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except if the spouse is filing separately or as a head of household.

(b) For taxable years that begin after December 31, 2000:

1. A personal exemption of $700 if the taxpayer is required to file a return under s. 71.03 (2) (a) 1. or 2. and $700 for the taxpayer's spouse, except if the spouse is filing separately or as a head of household.

2. An exemption of $700 for each individual for whom the taxpayer is entitled to an exemption for the taxable year under section 151 (c) of the Internal Revenue Code.

3. An additional exemption of $250 if the taxpayer has reached the age of 65 before the close of the taxable year to which his or her tax return relates and $250 for the taxpayer's spouse if he or she has reached the age of 65 before the close of the taxable year to which his or her tax return relates, except if the spouse is filing separately or as a head of household.

(c) With respect to persons who change their domicile into or from this state during the taxable year and nonresident persons, personal exemptions under pars. (a) and (b) shall be limited to the fraction of the amount so determined that Wisconsin adjusted gross income is of federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If a person and that person's spouse are not both domiciled in this state during the entire taxable year, their personal exemptions on a joint return are determined by multiplying the personal exemption that would be available to each of them if they were both domiciled in this state during the entire taxable year by a fraction the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 8. 71.06 (1m) (intro.) of the statutes is amended to read:

71.06 **(1m)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; ~~AFTER~~ 1997 TO 1999. (intro.) The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 1997, and before January 1, 2000:

SECTION 9. 71.06 (1n) of the statutes is created to read:

71.06 **(1n)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; 2000. The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 1999, and before January 1, 2001:

(a) On all taxable income from $0 to $7,500, 4.75%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.35%.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.55%.

(d) On all taxable income exceeding $112,500, 6.75%.

SECTION 10. 71.06 (1p) of the statutes is created to read:

71.06 **(1p)** FIDUCIARIES, SINGLE INDIVIDUALS AND HEADS OF HOUSEHOLDS; AFTER 2000. The tax to be assessed, levied and collected upon the taxable incomes of all fiduciaries, except fiduciaries of nuclear decommissioning trust or reserve funds, and single individuals and heads of households shall be computed at the following rates for taxable years beginning after December 31, 2000:

(a) On all taxable income from $0 to $7,500, 4.6%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.15%.

(c) On all taxable income exceeding $15,000 but not exceeding $112,500, 6.5%.

(d) On all taxable income exceeding $112,500, 6.75%.

SECTION 11. 71.06 (2) (c) (intro.) of the statutes is amended to read:

71.06 **(2)** (c) (intro.) For joint returns, for taxable years beginning after December 31, 1997, and before January 1, 2000:

SECTION 12. 71.06 (2) (d) (intro.) of the statutes is amended to read:

71.06 **(2)** (d) (intro.) For married persons filing separately, for taxable years beginning after December 31, 1997, and before January 1, 2000:

SECTION 13. 71.06 (2) (e) of the statutes is created to read:

71.06 **(2)** (e) For joint returns, for taxable years beginning after December 31, 1999, and before January 1, 2001:

1. On all taxable income from $0 to $10,000, ~~[illegible]~~ 4.75%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, ~~[illegible]~~ 6.35%.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.55%.

4. On all taxable income exceeding $150,000, ~~[illegible]~~ 6.75%.

SECTION 14. 71.06 (2) (f) of the statutes is created to read:

71.06 **(2)** (f) For married persons filing separately, for taxable years beginning after December 31, 1999, and before January 1, 2001:

1. On all taxable income from $0 to $5,000, ~~[illegible]~~ 4.75%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, ~~[illegible]~~ 6.35%.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.55%.

4. On all taxable income exceeding $75,000, [illegible]%. 6.75

SECTION 15. 71.06 (2) (g) of the statutes is created to read:

71.06 **(2)** (g) For joint returns, for taxable years beginning after December 31, 2000:

1. On all taxable income from $0 to $10,000, 4.6%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.15%.

3. On all taxable income exceeding $20,000 but not exceeding $150,000, 6.5%.

4. On all taxable income exceeding $150,000, [illegible]%. 6.75

SECTION 16. 71.06 (2) (h) of the statutes is created to read:

71.06 **(2)** (h) For married persons filing separately, for taxable years beginning after December 31, 2000:

1. On all taxable income from $0 to $5,000, 4.6%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.15%.

3. On all taxable income exceeding $10,000 but not exceeding $75,000, 6.5%.

4. On all taxable income exceeding $75,000, [illegible]%. 6.75

SECTION 17. 71.06 (2e) of the statutes is amended to read:

71.06 **(2e)** BRACKET INDEXING. For taxable years beginning after December 31, 1998, and before January 1, 2000, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1m) and (2) (c) and (d), and for taxable years beginning after December 31, 2001, the maximum dollar amount in each tax bracket, and the corresponding minimum dollar amount in the next bracket, under subs. (1p) and (2) (g) and (h), shall be increased each year by a percentage equal to the percentage change between the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the previous year and the U.S. consumer price index for all urban consumers, U.S. city average, for the month of August of the year before the previous year, as determined by the federal department of labor. Each amount that is revised under this subsection shall be rounded to the nearest multiple of $10 if the revised amount is not a multiple of $10 or, if the revised amount is a multiple of $5, such an amount shall be increased to the next higher multiple of $10. The department of revenue shall annually adjust the changes in dollar amounts required under this subsection and incorporate the changes into the income tax forms and instructions.

SECTION 18. 71.06 (2m) of the statutes is amended to read:

71.06 **(2m)** RATE CHANGES. If a rate under sub. (1), (1m), (1n), (1p) or (2) changes during a taxable year, the taxpayer shall compute the tax for that taxable year by the methods applicable to the federal income tax under section 15 of the internal revenue code.

SECTION 19. 71.06 (2s) (b) of the statutes is amended to read:

71.06 **(2s)** (b) For taxable years beginning after December 31, 1997, and before January 1, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1m) and (2) (c) and (d) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1m) and (2) (c) and (d) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 20. 71.06 (2s) (c) of the statutes is created to read:

71.06 **(2s)** (c) For taxable years beginning after December 31, 1999, and before January 1, 2001, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1n) and (2) (e) and (f) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1n) and (2) (e) and (f) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 21. 71.06 (2s) (d) of the statutes is created to read:

71.06 **(2s)** (d) For taxable years beginning after December 31, 2000, with respect to nonresident individuals, including individuals changing their domicile into or from this state, the tax brackets under subs. (1p) and (2) (g) and (h) shall be multiplied by a fraction, the numerator of which is Wisconsin adjusted gross income and the denominator of which is federal adjusted gross income. In this paragraph, for married persons filing separately "adjusted gross income" means the separate adjusted gross income of each spouse, and for married persons filing jointly "adjusted gross income" means the total adjusted gross income of both spouses. If an individual and that individual's spouse are not both domiciled in this state during the entire taxable year, the tax brackets under subs. (1p) and (2) (g) and (h) on a joint return shall be multiplied by a fraction, the numerator of which is their joint Wisconsin adjusted gross income and the denominator of which is their joint federal adjusted gross income.

SECTION 22. 71.07 (5) (a) 7. of the statutes is created to read:

71.07 **(5)** (a) 7. Miscellaneous itemized deductions under the Internal Revenue Code, without regard to whether such deductions are subject to the 2% floor as described in section 67 of the Internal Revenue Code.

SECTION 23. 71.07 (5m) (e) of the statutes is created to read:

71.07 **(5m)** (e) *Sunset.* No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 24. 71.07 (6) (am) 2. c. of the statutes is amended to read:

71.07 **(6)** (am) 2. c. For taxable years beginning after December 31, 1999, and before January 1, 2001, 2.75% of the earned income of the spouse with the lower earned income, but not more than ~~$385~~ <u>$440</u>.

SECTION 25. 71.07 (6) (am) 2. d. of the statutes is amended to read:

71.07 **(6)** (am) 2. d. For taxable years beginning after December 31, 2000, 3% of the earned income of the spouse with the lower earned income, but not more than ~~$420~~ <u>$480</u>.

SECTION 26. 71.07 (8) (d) of the statutes is created to read:

71.07 **(8)** (d) No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 27. 71.07 (9) (g) of the statutes is created to read:

71.07 **(9)** (g) No new claim may be filed under this subsection for a taxable year that begins after December 31, 1999.

SECTION 28. 71.125 of the statutes is amended to read:

71.125 Imposition of tax. (1) Except as provided in sub. (2), the tax imposed by this chapter on individuals and the rates under s. 71.06 (1), (1m), (1n), (1p) and (2) shall apply to the Wisconsin taxable income of estates or trusts, except nuclear decommissioning trust or reserve funds, and that tax shall be paid by the fiduciary.

(2) Each electing small business trust, as defined in section 1361 (e) (1) of the Internal Revenue Code, is subject to tax at the highest rate under s. 71.06 (1) ~~or under s. 71.06~~, (1m), (1n) or (1p), whichever taxable year is applicable, on its income as computed under section 641 of the Internal Revenue Code, as modified by s. 71.05 (6) to (12), (19) and (20).

SECTION 29. 71.17 (6) of the statutes is amended to read:

71.17 **(6)** FUNERAL TRUSTS. If a qualified funeral trust makes the election under section 685 of the Internal Revenue Code for federal income tax purposes, that election applies for purposes of this chapter and each trust shall compute its own tax and shall apply the rates under s. 71.06 (1) ~~and~~, (1m), (1n) or (1p).

SECTION 30. 71.54 (1) (d) (intro.) of the statutes is amended to read:

71.54 **(1)** (d) *1991 ~~and thereafter~~ to 1999.* (intro.) The amount of any claim filed in 1991 ~~and thereafter~~ to 1999 and based on property taxes accrued or rent constituting property taxes accrued during the previous year is limited as follows:

SECTION 31. 71.54 (1) (e) of the statutes is created to read:

71.54 **(1)** (e) *2000 and thereafter.* The amount of any claim filed in 2000 and thereafter and based on property taxes accrued or rent constituting property taxes accrued during the previous year is limited as follows:

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indexing, with respect to changes in rates under s. 71.06 (1p) and (2) (g) and (h), on July 1, 2000.

1. If the household income was $8,000 or less in the year to which the claim relates, the claim is limited to 80% of the property taxes accrued or rent constituting property taxes accrued or both in that year on the claimant's homestead.

2. If the household income was more than $8,000 in the year to which the claim relates, the claim is limited to 80% of the amount by which the property taxes accrued or rent constituting property taxes accrued or both in that year on the claimant's homestead exceeds 10% of the household income exceeding $8,000.

3. No credit may be allowed if the household income of a claimant exceeds $22,500.

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71.64 (9) (b) (intro.) and

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SECTION 32. 71.64 (9) (b) of the statutes is renumber amended to read:

71.64 **(9)** (b) (intro.) The department shall from time to time adjust the withholding tables to reflect any changes in income tax rates, any applicable surtax or any changes in dollar amounts in s. 71.06 (1), (1m), (1n), (1p) and (2) resulting from statutory changes, except ~~that the~~ as follows: ¶ 1. The department may not adjust the withholding tables to reflect the changes in rates in s. 71.06 (1m) and (2) (c) ~~and~~ (d) ~~(g) and (h)~~ and any changes in dollar amounts with respect to bracket indexing under s. 71.06 (2e), with respect to changes in rates under s. 71.06 (1m) and (2) (c) and (d), and with respect to standard deduction indexing under s. 71.05 (22) (ds) ~~for any taxable year that begins~~ before ~~January~~ July 1, 2000. ¶ (c) The tables shall account for the working families tax credit under s. 71.07 (5m), subject to s. 71.07 (5m) (e). The tables shall be extended to cover from zero to 10 withholding exemptions, shall assume that the payment of wages in each pay period will, when multiplied by the number of pay periods in a year, reasonably reflect the annual wage of the employe from the employer and shall be based on the further assumption that the annual wage will be reduced for allowable deductions from gross income. The department may determine the length of the tables and a reasonable span for each

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INS. A move to p. 18

Sec. #; cr. 71.64 (9) (b) 2. ¶ 71.64 (9) (b) 2. The department shall adjust the withholding tables to reflect the changes in rates in s. 71.06 (1n), (1p) and (2) (e), (f), (g) and (h) and any changes in dollar amounts with respect to bracket

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bracket. In preparing the tables the department shall adjust all withholding amounts not an exact multiple of 10 cents to the next highest figure that is a multiple of 10 cents. The department shall also provide instructions with the tables for withholding with respect to quarterly, semiannual and annual pay periods.

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SECTION 33. 71.67 (4) (a) of the statutes is amended to read:

71.67 **(4)** (a) The administrator of the lottery division in the department under ch. 565 shall withhold from any lottery prize of $2,000 or more an amount determined by multiplying the amount of the prize by the highest rate applicable to individuals under s. 71.06 (1) ~~or~~, (1m), (1n) or (1p). The administrator shall deposit the amounts withheld, on a monthly basis, as would an employer depositing under s. 71.65 (3) (a).

SECTION 34. 71.67 (5) (a) of the statutes is amended to read:

71.67 **(5)** (a) *Wager winnings.* A person holding a license to sponsor and manage races under s. 562.05 (1) (b) or (c) shall withhold from the amount of any payment of pari–mutuel winnings under s. 562.065 (3) (a) or (3m) (a) an amount determined by multiplying the amount of the payment by the highest rate applicable to individuals under s. 71.06 (1) (a) to (c) ~~or~~, (1m), (1n) or (1p) if the amount of the payment is more than $1,000.

SECTION 9343. Initial applicability; revenue.

(1) MODIFICATION OF THE INDIVIDUAL INCOME TAX SYSTEM. The treatment of sections 71.01 (16), 71.05 (6) (b) 21. and 71.07 (5) (a) 7. of the statutes first applies to taxable years beginning on January 1, 2000.

(END)