State of Wisconsin
1999 – 2000 LEGISLATURE

LRB–1917/P~~6~~7
MES:kmg:hmh
RMR

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

Changes are on pp. 10 to 12 3)

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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 4
4 is 4.7~~5~~% of taxable income, the rate for the next bracket is 6.3~~5~~%, the rate for the next bracket is 6.55% and the rate for the highest bracket is 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 6.75%.

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 $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 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 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.~~ 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 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, ~~[illegible]~~ 4.74%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, ~~[illegible]~~ 6.34%.

(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, 4.74%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.34%.

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

4. On all taxable income exceeding $150,000, 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, ~~4.75~~ 4.74%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, ~~6.35~~ 6.34%.

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

4. On all taxable income exceeding $75,000, 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, 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, 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~~ $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 renumbered 71.64 (9) (b) (intro.) and 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) 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 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 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. 71.64 (9) (b) 2. of the statutes is created to read:

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

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) 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/P8
MES:kmg:[illegible]

RMR

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

only changes are on pp. 3+10–12

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.

3 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 4.7~~4~~% of taxable income, the rate for the next bracket is 6.3~~4~~%, the rate for the next bracket is 6.55% and the rate for the highest bracket is 6.75%. 3

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 6.75%.

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 $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 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 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<u>, and before January 1, 2000, and for taxable years beginning</u>

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 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, 4.7~~4~~3%.

(b) On all taxable income exceeding \$7,500 but not exceeding \$15,000, 6.3~~4~~3%.

(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, 4.7~~4~~3%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.3~~4~~3%.

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

4. On all taxable income exceeding $150,000, 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, 4.7~~[illegible]~~3%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.3~~[illegible]~~3%.

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

4. On all taxable income exceeding $75,000, 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, 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, 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, <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)<u>, and for taxable years beginning after December 31, 2001, the</u>

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 renumbered 71.64 (9) (b) (intro.) and 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) 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 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 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. 71.64 (9) (b) 2. of the statutes is created to read:

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

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) 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–1917/1
MES:kmg:ijs

2 RMR

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

Only changes: pp. 3 and 17

Don't Gen Cat.

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 4.73% of taxable income, the rate for the next bracket is 6.33%, the rate for the next bracket is 6.55% and the rate for the highest bracket is 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 6.75%.

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 $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 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 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~~ 20,290. 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~~ <u>to 1999</u>.* Except as provided in par. (f), for taxable years beginning ~~on or after January 1, 1994~~ <u>after December 31, 1993, and before January 1, 2000</u>, 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 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, 4.73%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.33%.

(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, 4.73%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.33%.

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

4. On all taxable income exceeding $150,000, 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, 4.73%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.33%.

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

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

<u>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),</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 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)<u>, (1n), (1p)</u> 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, <u>and before January 1, 2000,</u> 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:

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~~ 11.8% of the household income exceeding $8,000.

3. No credit may be allowed if the household income of a claimant exceeds $~~[illegible]~~ 20,290.

SECTION 32. 71.64 (9) (b) of the statutes is renumbered 71.64 (9) (b) (intro.) and 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) 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 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 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. 71.64 (9) (b) 2. of the statutes is created to read:

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

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) 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-1917/1
MES:kmg:lp

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

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 4.73% of taxable income, the rate for the next bracket is 6.33%, the rate for the next bracket is 6.55% and the rate for the highest bracket is 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 6.75%.

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 $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 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 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 $20,290. 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, 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) 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<u>, and before January 1, 2000, and for taxable years beginning</u>

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 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, 4.73%.

(b) On all taxable income exceeding $7,500 but not exceeding $15,000, 6.33%.

(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, 4.73%.

2. On all taxable income exceeding $10,000 but not exceeding $20,000, 6.33%.

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

4. On all taxable income exceeding $150,000, 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, 4.73%.

2. On all taxable income exceeding $5,000 but not exceeding $10,000, 6.33%.

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

4. On all taxable income exceeding $75,000, 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, 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, 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:

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 11.8% of the household income exceeding $8,000.

3. No credit may be allowed if the household income of a claimant exceeds $20,290.

SECTION 32. 71.64 (9) (b) of the statutes is renumbered 71.64 (9) (b) (intro.) and 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) 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 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 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. 71.64 (9) (b) 2. of the statutes is created to read:

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

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) 21. and 71.07 (5) (a) 7. of the statutes first applies to taxable years beginning on January 1, 2000.

(END)