

**1999 DRAFTING REQUEST**

**Assembly Amendment (AA-AB133)**

Received: 06/11/99

Received By: **shoveme**

Wanted: **As time permits**

Identical to LRB:

For: **Legislative Fiscal Bureau 7-7417**

By/Representing: **Doty**

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

Drafter: **shoveme**

May Contact:

Alt. Drafters:

Subject: **Tax - individual income**

Extra Copies:

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**Pre Topic:**

LFB:.....Doty -

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**Topic:**

Retain income tax bracket indexing; start indexing new top bracket in 2001

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**Instructions:**

See Attached. LFB Paper # 101, altertative 2

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**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/1	shoveme 06/11/99	ygeller 06/11/99	jfrantze 06/11/99	_____	lrb_docadmin 06/11/99		

FE Sent For:

<END>

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/1	shoveme	11/9/99 jlg	7/6/99	7/6/99	7/6/99		

11 MES 6/11/99

FE Sent For:

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# Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

June 7, 1999

Joint Committee on Finance

Paper #101

## Individual Income Tax Modifications: Rates and Brackets (General Fund Taxes -- Individual and Corporate Income Taxes)

[LFB 1999-01 Budget Summary: Page 20, #1]

### CURRENT LAW

The individual income tax rates and brackets for tax years 1999, 2000 and 2001 are outlined below. The tax rates were enacted as part of 1997 Wisconsin Act 237 (the 1997-99 budget adjustment act) and first took effect with the 1998 tax year. The rates were 4.9%/6.55%/6.93% from tax year 1987 through 1997. The bracket structure for 1999 reflects one year of indexing over the previous structure, which had been in place since tax year 1987. The 1997-99 biennial budget (1997 Wisconsin Act 27) provided for annual adjustments to the tax brackets for changes in inflation beginning with tax year 1999. Under current law, the brackets will continue to be indexed for tax years 2000 and thereafter.

### Current Law Rates and Brackets Tax Year 1999

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

**Estimated Current Law Rates and Brackets  
Tax Year 2000**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>
<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>	
Less than \$7,790	Less than \$10,380	Less than \$5,190	4.77%
7,790 to 15,580	10,380 to 20,770	5,190 to 10,380	6.37
15,580 and Over	20,770 and Over	10,380 and Over	6.77

**Estimated Current Law Rates and Brackets  
Tax Year 2001**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>
<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>	
Less than \$7,970	Less than \$10,620	Less than \$5,310	4.77%
7,970 to 15,940	10,620 to 21,250	5,310 to 10,630	6.37
15,940 and Over	21,250 and Over	10,630 and Over	6.77

**GOVERNOR**

Create a fourth income tax bracket and reduce the tax rates in tax years 2000 and 2001. The rate and bracket schedules under the Governor's proposal are shown below. As drafted under the bill, the first three tax brackets would return to the 1998 amounts (the current law amounts prior to any indexing adjustments). Bracket indexing would resume in 2002 and thereafter.

**Governor's Proposed Rates and Brackets  
Tax Years 2000 and 2001**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>	
<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>	<u>2000</u>	<u>2001 and Thereafter</u>
Less than \$7,500	Less than \$10,000	Less than \$5,000	4.73%	4.60%
7,500 to 15,000	10,000 to 20,000	5,000 to 10,000	6.33	6.15
15,000 to 112,500	20,000 to 150,000	10,000 to 75,000	6.55	6.50
112,500 and Over	150,000 and Over	75,000 and Over	6.75	6.75

**DISCUSSION POINTS**

1. The administration indicates that the intent was for the tax brackets to be maintained at their 1999 levels for tax years 2000 and 2001 and their fiscal estimate of the bill modifications reflects the 1999 brackets. The intended tax brackets are shown below. An amendment would need to be adopted to reflect the Governor's intent. This modification would increase the cost of the bill by \$4.8 million in tax year 2000 and \$5.2 million in 2001. The withholding table adjustment would reduce revenues by an additional \$2.2 million for a total cost of \$7.1 million in the 2000-01 fiscal year as compared to the reestimates of the bill. Due the interaction of the various income tax modifications proposed in the bill, the fiscal effect of this change and other changes would differ if other revisions are made to the Governor's proposal.

**Governor's Intended Rates and Brackets  
Tax Years 2000 and 2001**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>	
<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>	<u>2000</u>	<u>2001 and Thereafter</u>
Less than \$7,620	Less than \$10,160	Less than \$5,080	4.73%	4.60%
7,620 to 15,240	10,160 to 20,320	5,080 to 10,160	6.33	6.15
15,240 to 112,500	20,320 to 150,000	10,160 to 75,000	6.55	6.50
112,500 and Over	150,000 and Over	75,000 and Over	6.75	6.75

2. The tax brackets could continue to be indexed for changes in inflation in 2000 and 2001 as shown below. The first three bracket amounts would be the same as under current law. The top brackets for 2000 reflect the statutory amounts proposed in the bill and the top brackets for 2001 reflect one year of indexing over the 2000 amounts. An alternative to not suspend indexing in 2000 and 2001 would increase the cost of the proposal by an estimated \$11.4 million in tax year 2000 and \$20.5 million in 2001 and withholding adjustments would increase the cost by an additional \$9.2 million in the first year. In total, this option would reduce revenues by an estimated \$20.6 million in the 2000-01 fiscal year. It should be noted that since the tax brackets in 2001 would be higher under this option than under the bill (as intended), income tax collections in tax years 2002 and thereafter would also be lower.

**Alternative to Continue Indexing  
the Governor's Intended Brackets  
Tax Year 2000**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>
<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>	
Less than \$7,790	Less than \$10,380	Less than \$5,190	4.73%
7,790 to 15,580	10,380 to 20,770	5,190 to 10,390	6.33
15,580 to 112,500	20,770 to 150,000	10,390 to 75,000	6.55
112,500 and Over	150,000 and Over	75,000 and Over	6.75

**Tax Year 2001**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>
<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>	
Less than \$7,970	Less than \$10,620	Less than \$5,310	4.60%
7,970 to 15,940	10,620 to 21,250	5,310 to 10,630	6.15
15,940 to 115,090	21,250 to 153,450	10,630 to 76,730	6.50
115,090 and Over	153,450 and Over	76,730 and Over	6.75

3. Of the 43 states, plus the District of Columbia, that imposed an individual income tax in 1997, seven imposed a flat tax rate on all taxable income ranging from 2.8% in Pennsylvania to 6.0% in Tennessee. The state of Massachusetts had four flat tax rates, each of which was applied to different sources of income and three states incorporated the federal tax brackets by calculating the state tax as a percentage of federal tax liability.

The remaining states used a marginal rate and bracket structure. The lowest rate ranged from less than 1.0% (four states) to 6.0% (in four other states), and the top tax rate ranged from 3.0% in Illinois to 11% in Montana. The number of tax brackets also varied from two in Connecticut to 11 in Oklahoma. Finally, the point at which the top tax rate takes effect was significantly different. Maryland had four tax brackets with the top bracket at \$3,000 for all taxpayers. On the other hand, Arizona's top bracket, the fifth, was \$300,000 for married-joint taxpayers (\$150,000 if single).

4. The tax rates could be increased or decreased from the rates provided in the bill to modify the amount of income tax collections. A change in the lowest tax rate would impact all taxpayers, whereas a change in the top tax rate would only affect those taxpayers with taxable income in the top tax bracket. An across-the-board rate change would affect all taxpayers proportionately to their income.

5. The tax brackets could also be modified. For example, lowering the proposed top tax bracket (\$150,000 for married-joint taxpayers) would increase the amount of income tax collections from the amounts provided in the bill. Alternatively, raising the top bracket amounts would reduce income tax revenues.

## **ALTERNATIVES**

This paper provides alternatives to the bill to incorporate the Governor's intent and to retain indexing. There are an unlimited number of other rate and bracket options that could be adopted by the Committee.

1. Adopt the Governor's recommendation to create a fourth income tax bracket and reduce the tax rates in tax years 2000 and 2001. In addition, modify the provision to incorporate the Governor's intent to maintain the 1999 tax brackets in tax years 2000 and 2001 rather than the 1998

amounts. This alternative would reduce income tax revenues by \$7,100,000 in 2000-01 from the reestimates of the bill if the other income tax provisions recommended by the Governor are not modified.

<u>Alternative 1</u>	<u>GPR</u>
1999-01 REVENUE (Change to Base)	- \$7,100,000

2. Modify the Governor's recommendation by continuing to index the tax brackets in tax years 2000 and 2001. This alternative would reduce income tax revenues by \$20,600,000 in 2000-01 from the reestimates of the bill if the other income tax provisions recommended by the Governor are not modified.

<u>Alternative 2</u>	<u>GPR</u>
1999-01 REVENUE (Change to Base)	- \$20,600,000

Prepared by: Kelsie Doty

**Shovers, Marc**

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**From:** Doty, Kelsie  
**Sent:** Friday, June 11, 1999 9:45 AM  
**To:** Shovers, Marc  
**Subject:** Income tax drafting request

I have six items that need drafts. Give me a call if you need clarification.

AAA  
↓

- ~~1. Paper #100 -- Alt 2. Maintain the current law tax treatment of social security benefits.~~
2. Paper #101 -- Alt 2. Retain indexing of the income tax brackets. Start indexing the newly created top tax bracket in 2001.
- ~~3. Add the provisions of Substitute Amendment 1 to SB 49 (filing thresholds).~~
4. Paper #106 -- Alt 1 (as modified). Approve the Governor's recommendation to eliminate miscellaneous itemized deductions with two changes.
  - a. Continue to allow professional dues and union dues to be included as a miscellaneous itemized deduction under the credit.
  - b. Create a subtract modification from federal AGI for the amount claimed as a federal miscellaneous itemized deduction for repayment of income that was taxed in a prior year. Specify that the amount claimed under the claim of right credit can not be claimed under the subtraction.
5. Paper #108 -- Alt 1. Modify the current indexing provisions to incorporate the federal indexing method into state law. Specifically, eliminate the maximum income amounts for the standard deduction from the statutes and specify that the tax brackets and standard deduction be indexed based on the 1998 amounts.
6. Motion #1407. Modify current law as it relates to the taxation of inter vivos trusts. I'll fax over a copy of the motion and the language that the lobbyist attempted to draft.

**Kelsie Doty**  
Fiscal Analyst  
Legislative Fiscal Bureau  
1 East Main St., Suite 301  
Madison, WI 53703  
Phone: (608) 266-3847  
Fax: (608) 267-6873  
Kelsie.Doty@legis.state.wi.us



1999

Date (time) needed \_\_\_\_\_

LRB b 06651-1

**LFB BUDGET AMENDMENT  
[ONLY FOR LFB]**

MAES:jlg

See form **AMENDMENTS — COMPONENTS & ITEMS.**

**LFB AMENDMENT  
TO 1999 ASSEMBLY BILL 133 AND 1999 SENATE BILL 45**

>>FOR JT. FIN. SUB. — NOT FOR INTRODUCTION<<

At the locations indicated, amend the bill as follows:

#. Page 851, line 15: delete "2001" ✓ and substitute "1999" ✓

#. Page 851, line 17: delete "(1p) and (2)(g) and (h)" and substitute "(1n) (1p) and (2)(e), (f), (g) and (h)" ✓

#. Page . . . . ., line . . . . .:

#. Page . . . . ., line . . . . .:

(END) ✓

#. Page . . . . ., line . . . . .:

#. Page . . . . ., line . . . . .:



State of Wisconsin  
1999 - 2000 LEGISLATURE

LRBb0665/1  
MES:jlj;jf

LFB:.....Doty – Retain income tax bracket indexing; start indexing new top bracket in 2001

FOR 1999-01 BUDGET — NOT READY FOR INTRODUCTION

**LFB AMENDMENT**

**TO 1999 ASSEMBLY BILL 133 AND 1999 SENATE BILL 45**

1 At the locations indicated, amend the bill as follows:

2 **1.** Page 851, line 15: delete “2001” and substitute “1999”.

3 **2.** Page 851, line 17: delete “(1p) and (2) (g) and (h)” and substitute “(1n), (1p)

4 and (2) (e), (f), (g) and (h)”.

5 (END)