

**(Gov) Agency:** General Fund Taxes - Individual & Corporate Taxes  
Increase Married Couple Credit

**Recommendations:**

**Paper No. 104:** Alternative 1 or 2

**Comments:** Either go with the governor (i.e. Alternative 1), or do more than the gov recommended (i.e. alternative 2) and give us married people a break.

**prepared by:** Barry



## 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 #104

### **Individual Income Tax Modifications: Increase Married Couple Credit (General Fund Taxes -- Individual and Corporate Income Taxes)**

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

#### **CURRENT LAW**

From tax years 1989 through 1997, two-earner married couples were eligible for a married couple credit equal to 2.0% of the earned income of the secondary earner, up to a maximum credit of \$300. Under 1997 Wisconsin Act 27 (the 1997-99 biennial budget), the credit was increased to 2.17% of the secondary earner's earned income in 1998, 2.5% in 1999, 2.75% in 2000 and 3.0% in 2001 and thereafter. The maximum credit is \$304 in 1998, \$350 in 1999, \$385 in 2000 and \$420 in 2001 and thereafter.

#### **GOVERNOR**

Increase the maximum married couple credit to \$440 in 2000 and \$480 in 2001 and thereafter. The credit percentages would not be modified under the bill.

#### **DISCUSSION POINTS**

1. The married couple credit was created to address two policy goals. First, the credit is intended to offset the additional work-related expenses incurred by a second earner, such as transportation and child care costs, which are not faced by single-earner couples. Second, the credit is intended to reduce the "marriage penalty" experienced by two-earner married couples. The "penalty" occurs when the taxes of a married couple are greater than the taxes of two single individuals with the same amount of income. The "penalty" is caused because the standard deduction and tax bracket amounts for single taxpayers are more than half of the married-joint amounts. Married couples with only one earner experience a "marriage benefit" rather than a "penalty."

2. Under current law, the maximum married couple credit is received by married

couples where the secondary earner earns \$14,000 or more ( $\$14,000 \times 2.75\% = \$385$  in tax year 2000 and  $\$14,000 \times 3\% = \$420$  in tax year 2001 and after). The Governor's recommendation would increase the maximum credit, but would not increase the credit percentage. As a result, only couples whose secondary earner earns \$14,000 or more would benefit from the proposed credit increase.

3. The bill could be modified to increase the credit percentage to 3.14% to a maximum credit of \$440 in 2000 and 3.43% to a maximum credit of \$480 in 2001 and thereafter. This alternative would provide the same maximum credit as under the bill. However, all married couple credit claimants would benefit from an increase in the credit percentage. This option would reduce revenues by an estimated \$10.2 million in tax year 2000 and \$11.3 million in 2001 compared to the bill. It should be noted that due to the interaction of the various income tax modifications, the fiscal effect of this or any other change would differ if other revisions are made to the Governor's proposal.

4. If the Governor's recommended credit increase were removed from the bill, income tax revenues would increase by an estimated \$21.6 million in tax year 2000 and \$23.5 million in 2001 from the reestimates of the bill if no other changes are made to the bill.

## ALTERNATIVES

1. Adopt the Governor's recommendation to increase the maximum married couple credit to \$440 in 2000 and \$480 in 2001 and thereafter.

2. Modify the Governor's recommendation by also increasing the credit percentages to 3.14% in 2000 and 3.43% in 2001 and thereafter. The maximum credit would be \$440 in 2000 and to \$480 in 2001 and thereafter. Compared to the bill, this would reduce income tax revenues by \$10,200,000 in 2000-01 if the other income tax provisions recommended by the Governor are not modified.

<b>Alternative 2</b>	<b>GPR</b>
1999-01 REVENUE (Change to Base)	- \$10,200,000

3. Delete the Governor's recommendation. Compared to the bill, this would increase income tax revenues by \$21,600,000 in 2000-01 if the other income tax provisions recommended by the Governor are not modified.

<b>Alternative 3</b>	<b>GPR</b>
1999-01 REVENUE (Change to Bill)	\$21,600,000

Prepared by: Kelsie Doty

**(Gov) Agency:** General Fund Taxes - Individual & Corporate Taxes  
Working Families Credit

**Recommendations:**

Paper No. <sup>5</sup>104: Alternative 2

**Comments:** Maintain current law and keep the working families credit  
(i.e. not the block-grant personal exemption the gov proposed).

prepared by: Barry



## Legislative Fiscal Bureau

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June 7, 1999

Joint Committee on Finance

Paper #105

### **Individual Income Tax Modifications: Working Families Credit (General Fund Taxes -- Individual and Corporate Income Taxes)**

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

#### **CURRENT LAW**

Beginning in tax year 1998, taxpayers with Wisconsin adjusted gross income (AGI) below \$9,000 (\$18,000 for married couples filing joint returns) may claim a credit equal to their net tax liability. The credit phases-out over the next \$1,000 in income until eliminated when AGI exceeds \$10,000 (\$19,000 if married-joint). The credit eliminates state income taxes for single taxpayers with AGI below \$9,000 and married couples filing joint returns with AGI below \$18,000.

#### **GOVERNOR**

Eliminate the working families credit beginning in tax year 2000.

#### **DISCUSSION POINTS**

1. In addition to eliminating the working families credit, the bill would increase the standard deduction and create personal exemptions. However, these provisions are not enough to eliminate the income tax liability for all single taxpayers with income below \$9,000 and married couples with AGI below \$18,000. On the other hand, it should be noted that some of these individuals may benefit from the proposed homestead credit expansion.

2. The following table shows the impact of the Governor's income tax modifications on working families credit claimants in tax years 2000 and 2001 based on information from the 1997 Wisconsin tax sample. The table shows that of taxpayers who would have no tax liability under current law due to the working families credit, 46.8% would have a tax liability under the bill in 2000 and 37.5% would pay taxes in 2001. On the other hand, 42.7% of claimants in 2000 and

50.1% in 2001 would continue to have no tax liability under the bill. Finally, 10.5% of current working families credit claimants in 2000 and 12.4% in 2001 would pay less taxes under the bill (the individuals with a tax decrease are in the phase-out income range for the credit).

### Impact of Governor's Tax Modifications On Working Families Credit Claimants

	<u>Tax Year 2000</u>		<u>Tax Year 2001</u>	
	<u>Count</u>	<u>% of Total</u>	<u>Count</u>	<u>% of Total</u>
Tax Increase	74,500	46.8%	58,000	37.5%
Tax Decrease	16,700	10.5	19,200	12.4
No Change	<u>68,000</u>	<u>42.7</u>	<u>77,500</u>	<u>50.1</u>
Total	159,200	100.0%	154,700	100.0%

3. Retaining the working families credit would reduce income tax revenues by \$5.1 million in tax year 2000 and \$3.5 million in tax year 2001 (in 2000 dollars) from the bill. Due to the interaction of the various income tax modification provisions, the fiscal effect of this change would differ if other revisions were made to the Governor's proposal.

### Filing Thresholds

4. Under current law, individuals and married couples are not required to file a state individual income tax return unless their gross income exceeds a threshold amount established by the Department of Revenue (DOR) according to statutory guidelines. The current filing thresholds equal the maximum state standard deduction and an additional amount to reflect the senior citizen credit. The Department may adjust the thresholds annually to reflect changes in the standard deduction, senior credit and tax rates.

5. The current filing thresholds do not reflect the working families credit because statutory authority to do so was not granted when the credit was created. In addition, the bill would not grant authority for the thresholds to be adjusted to reflect the proposed personal exemption and senior exemption.

6. In April of 1999, the Joint Committee on Finance recommended Senate Substitute Amendment 1 to 1999 Senate Bill 49 for passage. The substitute amendment directs DOR to annually adjust the filing thresholds to reflect the gross income level at which no taxpayer would have a state tax liability. The thresholds would be based on whether the taxpayer is filing a single, head-of-household, married-joint or married separate return and whether the taxpayer is 65 years of age or over. The substitute amendment was passed by the Senate on May 18.

7. The budget bill could be modified to incorporate the provisions of the substitute amendment to SB 49. This would allow DOR to adjust the filing thresholds to reflect the working families credit in tax year 1999 and in 2000 and thereafter if the credit is retained. It would also allow DOR to adjust the filing thresholds to reflect the personal exemptions and senior exemptions

if enacted into law. This modification would not be necessary if SB 49 is enacted into law prior to the Fall of 1999.

## ALTERNATIVES

### Working Families Credit

1. Adopt the Governor's recommendation to eliminate the working families credit effective with the 2000 tax year.

2. Delete the Governor's recommendation and retain the current law working families credit. This alternative would reduce income tax revenues by an estimated \$5,100,000 in 2000-01 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 Bill)	-\$5,100,000

### Filing Threshold

3. Allow DOR to adjust the filing thresholds to reflect the gross income level at which no taxpayer would have a state tax liability.

Prepared by: Kelsie Doty

**(Gov) Agency:** General Fund Taxes - Individual & Corporate Taxes  
Miscellaneous Itemized Deductions

**Recommendations:**

**Paper No. 106:** Alternative 1 (no action needed)

**Comments:** Go with the governor and get rid of these miscellaneous exemptions. If you don't, it will cost you \$25 million.

**prepared by:** Barry





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June 7, 1999

Joint Committee on Finance

Paper #106

### **Individual Income Tax Modifications: Miscellaneous Itemized Deductions (General Fund Taxes -- Individual and Corporate Income Taxes)**

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

#### **CURRENT LAW**

The itemized deduction credit is equal to 5% of the excess of allowable itemized deductions over the state's sliding scale standard deduction. State itemized deductions generally conform to the expenses permitted as federal itemized deductions and currently include charitable contributions; medical expenses exceeding 7.5% of federal adjusted gross income (AGI); interest expenses for a principal residence or a second home in Wisconsin; interest expenses for property sold on a land contract; other interest expenses, except personal interest; and miscellaneous itemized deductions.

#### **GOVERNOR**

Eliminate miscellaneous itemized deductions as eligible expenses under the state's itemized deduction credit. This modification would first apply to tax years beginning on January 1, 2000.

#### **DISCUSSION POINTS**

1. The itemized deductions allowed under the state credit generally conform to the federal itemized deductions with two exceptions. First, property taxes paid on a principal residence are claimed for purposes of the state's property tax/rent credit and long-term care insurance premiums are subtracted directly from income, rather than being claimed under the itemized deduction credit. Second, the following itemized deductions may not be claimed for Wisconsin tax purposes: (a) interest paid on a second home located outside of Wisconsin or on a residence that is a boat; (b) interest paid to purchase or hold U.S. Government securities; (c) state income taxes; (d) casualty and theft losses; and (e) moving expenses for moves out of state.

2. Miscellaneous itemized deductions allowed under federal and state law include unreimbursed employe expenses (such as business insurance premiums, travel expenses, professional dues, home office expenses, tools and supplies, and work clothes if not suitable for everyday use), tax preparation fees, repayments of income, safe deposit box rent and legal expenses to produce or collect taxable income. These expenses may be deducted to the extent that they exceed 2% of federal AGI. In addition, casualty and theft losses from income producing property, gambling losses (up to the amount of gambling winnings), unrecovered investments in a pension of a deceased taxpayer and impairment-related work expenses of disabled persons are also deductible as miscellaneous itemized deductions with no limit based on AGI.

3. Of the 43 states, plus the District of Columbia, that imposed an individual income tax in 1997, 10 states did not provide for itemized deductions. Of the remaining 34 states, four provided a different tax treatment of miscellaneous itemized deductions from federal law: California limited the amount of Legislators' travel expenses that could be deducted; Maine required an adjustment of expenses incurred in the production of Maine income; Massachusetts did not allow a deduction for gambling losses; and Oregon limited the deduction for gambling losses to the amount of gambling winnings that were taxable by the state (Oregon exempts state lottery winnings from taxation).

4. The following table provides information on the amount of itemized deductions claimed by Wisconsin taxpayers by type in 1997. This information is from 1997 aggregate data and reflects information reported on the state tax forms. The table shows that of all itemized deductions claimed in 1997, 8.6% was made up of miscellaneous itemized deductions. Of the 2.6 million taxpayers in 1997, approximately 147,100 taxpayers (5.7% of the total) claimed miscellaneous deductions subject to the 2% limit and 22,600 taxpayers (0.9% of the total) claimed miscellaneous deductions that are not subject to the limit. The itemized deduction credit was equal to \$271.9 million in 1997, which is 5% of the amount that allowable itemized deductions (\$7,040.3 million) exceeded the state's sliding scale standard deduction.

#### Itemized Deductions Claimed in Tax Year 1997

	<u>Count</u>	<u>Amount</u>	<u>% of Amount</u>
Medical and Dental	129,169	\$609,137,357	8.7%
Interest Expenses	734,503	4,033,100,239	57.3
Charitable Contributions	807,873	1,786,590,136	25.4
Misc. Deductions subject to 2% Limit	147,072	509,754,920	7.2
Other Miscellaneous Deductions	<u>22,629</u>	<u>101,702,998</u>	<u>1.4</u>
<b>Total Itemized Deductions</b>	<b>938,786</b>	<b>\$7,040,285,650</b>	<b>100.0%</b>

5. There is limited detailed information available on the types of miscellaneous itemized deductions claimed by Wisconsin taxpayers. According to the 1997 tax sample, 159,100 Wisconsin

taxpayers claimed a total of \$592.3 million in miscellaneous itemized deductions on the federal Schedule A. Of this amount, \$487.6 million (82.3%) were miscellaneous deductions subject to the 2% limit, which included unreimbursed employe expenses (\$351.6 million), tax preparation fees (\$27.9 million) and other deductions (\$108.1 million). A total of 138,500 taxpayers claimed deductions that were subject to the 2% limit.

There were 24,000 taxpayers who claimed \$104.7 million (17.7% of the total) in miscellaneous deductions that were not subject to the 2% limit. Of those individuals, 3,600 taxpayers claimed \$16.2 million in gambling expenses and the remaining \$88.5 million was made up of other miscellaneous deductions.

6. Attachments 1 and 2 to this paper provide distributional information from the 1997 Wisconsin tax sample on the Governor's income tax proposal for tax years 2000 and 2001, respectively, on taxpayers affected by the recommendation to delete miscellaneous itemized deductions. The information in the attachments shows the impact of all of the Governor's proposed income tax modifications, except the proposed homestead credit expansion.

7. The following table compares all taxpayers with a tax decrease or tax increase under the individual income tax modifications recommended by the Governor to only those who are impacted by the provision to eliminate miscellaneous itemized deductions. As shown in the table for the 2001 tax year, about 87% of all taxpayers would have a tax decrease under the bill and 13% would have a tax increase. In contrast, only 57.1% of taxpayers affected by the miscellaneous itemized deduction provision would have a tax decrease and 42.9% would pay more taxes. Taxpayers affected by the miscellaneous itemized deduction provision make up 23.4% of all taxpayers with a tax increase in 2001.

	Count of All Taxpayers Affected by the Governor's Proposal	Percent of Total	Count of Taxpayers Affected by Misc. Itemized Deduction Provision	Percent of Total	Percent of All Taxpayers
<b>Tax Year 2000</b>					
Tax Decrease	1,532,000	80.2%	53,400	39.2%	3.5%
Tax Increase	<u>378,400</u>	<u>19.8</u>	<u>82,700</u>	<u>60.8</u>	<u>21.9</u>
Total	1,910,400	100.0%	136,100	100.0%	7.1%
<b>Tax Year 2001</b>					
Tax Decrease	1,667,000	87.0%	77,500	57.1%	4.6%
Tax Increase	<u>248,300</u>	<u>13.0</u>	<u>58,200</u>	<u>42.9</u>	<u>23.4</u>
Total	1,915,300	100.0%	135,700	100.0%	7.1%

8. Retaining miscellaneous itemized deductions under the itemized deduction credit would reduce income tax revenues by \$25.0 million in tax year 2000 and \$24.5 million in tax year 2001 (in 2000 dollars) from the bill. It should be noted that due to the interaction of the various income tax modification provisions, the fiscal effect of this change would differ if other revisions were made to the Governor's proposal.

9. Since the bill's introduction, the Department of Revenue has requested that a

modification be made to this proposal that would allow repayments of income to be subtracted from federal AGI when calculating Wisconsin AGI. Currently, if an individual repays \$3,000 or less in income that was taxed in a prior year, the amount repaid can be claimed as a miscellaneous itemized deduction (subject to the 2% limit). Repayments of income in excess of \$3,000 are eligible for a state credit. This modification is expected to reduce revenues by a minimal amount.

## ALTERNATIVES

1. Approve the Governor's recommendation to eliminate miscellaneous itemized deductions from the calculation of the itemized deduction credit. Provide that the amount claimed as a federal miscellaneous itemized deduction for repayment of income that was taxed in a prior year may be subtracted from federal AGI.

2. Delete the Governor's recommendation and continue to allow miscellaneous itemized deductions to be used on calculating the itemized deduction credit. Compared to the bill, this would reduce income tax revenues by \$25,000,000 in 2000-01 if the other income tax provisions recommended by the Governor are not modified.

<b>Alternative 2</b>	<b>GPR</b>
1999-01 REVENUE (Change to Bill)	-\$25,000,000

Prepared by: Kelsie Doty  
Attachments

**ATTACHMENT I**

**Distribution of Taxpayers Affected by the Elimination of Miscellaneous Itemized Deduction  
With a Tax Increase or Decrease Under the Governor's Income Tax Proposal  
Tax Year 2000**

Wisconsin Adjusted Gross Income	Taxpayers With a Tax Decrease				Taxpayers With a Tax Increase				
	Count	% of Count	Amount of Tax Decrease	% of Amount	Count	% of Count	Amount of Tax Increase	% of Amount	Average Increase
Under \$10,000	400	0.7%	-\$12,000	0.2%	1,800	2.2%	\$42,000	0.2%	\$23
10,000 to 20,000	600	1.1%	-24,000	0.4%	2,100	2.5%	223,000	1.2%	106
20,000 to 30,000	4,500	8.4%	-457,000	8.6%	4,700	5.7%	863,000	4.6%	184
30,000 to 40,000	7,300	13.7%	-943,000	17.6%	11,500	13.9%	2,277,000	12.2%	198
40,000 to 50,000	9,100	17.0%	-1,184,000	22.2%	11,900	14.4%	2,573,000	13.7%	216
50,000 to 60,000	10,000	18.7%	-1,110,000	20.8%	11,500	13.9%	2,147,000	11.5%	187
60,000 to 70,000	6,600	12.4%	-449,000	8.4%	11,100	13.4%	2,499,000	13.3%	225
70,000 to 80,000	4,200	7.9%	-284,000	5.3%	8,400	10.2%	1,379,000	7.4%	164
80,000 to 90,000	4,000	7.5%	-205,000	3.8%	5,900	7.1%	1,451,000	7.7%	246
90,000 to 100,000	1,700	3.2%	-134,000	2.5%	4,000	4.8%	1,073,000	5.7%	268
100,000 to 200,000	3,900	7.3%	-369,000	6.9%	8,000	9.7%	2,697,000	14.4%	337
200,000 to 300,000	600	1.1%	-89,000	1.7%	900	1.1%	577,000	3.1%	641
300,000 and Over	500	0.9%	-84,000	1.6%	900	1.1%	926,000	4.9%	1,029
<b>TOTALS</b>	<b>53,400</b>	<b>100.0%</b>	<b>-\$5,344,000</b>	<b>100.0%</b>	<b>82,700</b>	<b>100.0%</b>	<b>\$18,727,000</b>	<b>100.0%</b>	<b>\$226</b>

**Comments:**  
This attachment shows the impact of all of the Governor's proposed income tax modifications, except the homestead credit expansion, on only those taxpayers affected by the provision to eliminate miscellaneous itemized deductions in tax year 2000.

Approximately 136,100 taxpayers would be affected by this provision under the Governor's tax proposal.

Of all affected taxpayers with a tax change, 53,400 (39.2%) would have a tax decrease. The average decrease would be \$100.

Of all affected taxpayers with a tax change, 82,700 (60.8%) would have a tax increase. The average increase would be \$226.

SOURCE: 1997 Wisconsin Tax Sample

Wisconsin Adjusted Gross Income	Taxpayers With a Tax Change				Average Change
	Count	% of Count	Amount of Tax Change	% of Amount	
Under \$10,000	2,200	1.6%	\$30,000	0.2%	\$14
10,000 to 20,000	2,700	2.0%	199,000	1.5%	74
20,000 to 30,000	9,200	6.8%	406,000	3.0%	44
30,000 to 40,000	18,800	13.8%	1,334,000	10.0%	71
40,000 to 50,000	21,000	15.4%	1,389,000	10.4%	66
50,000 to 60,000	21,500	15.8%	1,037,000	7.7%	48
60,000 to 70,000	17,700	13.0%	2,050,000	15.3%	116
70,000 to 80,000	12,600	9.3%	1,095,000	8.2%	87
80,000 to 90,000	9,900	7.3%	1,246,000	9.3%	126
90,000 to 100,000	5,700	4.2%	939,000	7.0%	165
100,000 to 200,000	11,900	8.7%	2,328,000	17.4%	196
200,000 to 300,000	1,500	1.1%	488,000	3.6%	325
300,000 and Over	1,400	1.0%	842,000	6.3%	601
<b>TOTALS</b>	<b>136,100</b>	<b>100.0%</b>	<b>\$13,383,000</b>	<b>100.0%</b>	<b>\$98</b>

**ATTACHMENT 2**

**Distribution of Taxpayers Affected by the Elimination of Miscellaneous Itemized Deduction  
With a Tax Increase or Decrease Under the Governor's Income Tax Proposal  
Tax Year 2001**

Wisconsin Adjusted Gross Income	Taxpayers With a Tax Decrease				Taxpayers With a Tax Increase					
	Count	% of Count	Amount of Tax Decrease	% of Amount	Average Decrease	Count	% of Count	Amount of Tax Increase	% of Amount	Average Increase
Under \$10,000	1,000	1.3%	-\$17,000	0.2%	-\$17	1,200	2.1%	\$30,000	0.2%	\$25
10,000 to 20,000	900	1.2%	-43,000	0.4%	-48	1,900	3.3%	176,000	1.2%	93
20,000 to 30,000	5,400	7.0%	-658,000	6.6%	-122	3,700	6.4%	715,000	5.0%	193
30,000 to 40,000	9,900	12.8%	-1,321,000	13.3%	-133	8,800	15.1%	1,817,000	12.8%	206
40,000 to 50,000	11,000	14.2%	-1,811,000	18.2%	-165	9,600	16.5%	1,974,000	13.9%	206
50,000 to 60,000	14,000	18.1%	-1,980,000	19.9%	-141	7,500	12.9%	1,563,000	11.0%	208
60,000 to 70,000	10,300	13.3%	-1,135,000	11.4%	-110	7,300	12.5%	1,843,000	12.9%	252
70,000 to 80,000	8,100	10.5%	-823,000	8.3%	-102	4,400	7.6%	899,000	6.3%	204
80,000 to 90,000	6,700	8.6%	-647,000	6.5%	-97	3,400	5.8%	1,068,000	7.5%	314
90,000 to 100,000	2,900	3.7%	-330,000	3.3%	-114	2,900	5.0%	801,000	5.6%	276
100,000 to 200,000	5,900	7.6%	-868,000	8.7%	-147	6,100	10.5%	2,028,000	14.2%	332
200,000 to 300,000	800	1.0%	-171,000	1.7%	-214	700	1.2%	493,000	3.5%	704
300,000 and Over	600	0.8%	-144,000	1.4%	-240	700	1.2%	843,000	5.9%	1,204
<b>TOTALS</b>	<b>77,500</b>	<b>100.0%</b>	<b>-\$9,948,000</b>	<b>100.0%</b>	<b>-\$128</b>	<b>58,200</b>	<b>100.0%</b>	<b>\$14,250,000</b>	<b>100.0%</b>	<b>\$245</b>

**Comments:**  
This attachment shows the impact of all of the Governor's proposed income tax modifications, except the homestead credit expansion, on only those taxpayers affected by the provision to eliminate miscellaneous itemized deductions in tax year 2001.

Approximately 135,700 taxpayers would be affected by this provision under the Governor's tax proposal.

Of all affected taxpayers with a tax change, 77,500 (57.1%) would have a tax decrease. The average decrease would be \$128.

Of all affected taxpayers with a tax change, 58,200 (42.9%) would have a tax increase. The average increase would be \$245.

SOURCE: 1997 Wisconsin Tax Sample

Wisconsin Adjusted Gross Income	Taxpayers With a Tax Change				Average Change
	Count	% of Count	Amount of Tax Change	% of Amount	
Under \$10,000	2,200	1.6%	\$13,000	0.3%	\$6
10,000 to 20,000	2,800	2.1%	133,000	3.1%	48
20,000 to 30,000	9,100	6.7%	57,000	1.3%	6
30,000 to 40,000	18,700	13.8%	496,000	11.5%	27
40,000 to 50,000	20,600	15.2%	163,000	3.8%	8
50,000 to 60,000	21,500	15.8%	-417,000	-9.7%	-19
60,000 to 70,000	17,600	13.0%	708,000	16.5%	40
70,000 to 80,000	12,500	9.2%	76,000	1.8%	6
80,000 to 90,000	10,100	7.4%	421,000	9.8%	42
90,000 to 100,000	5,800	4.3%	471,000	10.9%	81
100,000 to 200,000	12,000	8.8%	1,160,000	27.0%	97
200,000 to 300,000	1,500	1.1%	322,000	7.5%	215
300,000 and Over	1,300	1.0%	699,000	16.2%	538
<b>TOTALS</b>	<b>135,700</b>	<b>100.0%</b>	<b>\$4,302,000</b>	<b>100.0%</b>	<b>\$32</b>

**(Gov) Agency:** General Fund Taxes - Individual & Corporate Taxes  
Temporary Rate Reduction

**Recommendations:**

**Paper No. 107:** Alternatives 3 or 4

**Comments:** Screw the gov's income tax rate reductions and beef up the property tax rent credit (i.e. alternatives 3 or 4)

**prepared by:** Barry



## Legislative Fiscal Bureau

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June 7, 1999

Joint Committee on Finance

Paper #107

### **Individual Income Tax Modifications: Temporary Tax Reductions (General Fund Revenues -- Individual and Corporate Income Taxes)**

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

#### **CURRENT LAW**

No provision.

#### **GOVERNOR**

Modify the individual income tax structure as follows in tax year 2000: federalize the treatment of social security benefits, increase the sliding scale standard deduction, create personal exemptions, create a fourth income tax bracket, reduce the income tax rates, eliminate miscellaneous deductions from the itemized deduction credit, increase the married couple credit, eliminate the property tax/rent credit (PTRC), dependent credit and senior citizen credit; and make withholding table adjustments. For tax year 2001, the Governor's proposal would further increase the personal exemptions, reduce the income tax rates, increase the married couple credit and index the increased standard deduction.

Based on the bill as drafted, these modifications are estimated by this office to reduce individual income tax revenue by \$152.2 million in tax year 2000 and \$253.0 million in tax year 2001. However, if the bill were amended to account for a drafting error (as explained in a separate issue paper), the estimated cost would increase by \$4.8 million in tax year 2000 and \$5.2 million in 2001, for a total cost of \$157.0 million in tax year 2000 and \$258.2 million in 2001. On a fiscal year basis, the bill proposal (as intended) is estimated to cost \$273.2 million in 2000-01, which includes \$116.2 million as the cost of adjusting the withholding tables on July 1, 2000, to reflect the 2001 tax rates.



## DISCUSSION POINTS

1. A letter prepared by this office on May 11, 1999, for the co-chairs of the Joint Committee on Finance discussed the structural balance of the general fund. The letter noted that under AB 133, appropriations exceed revenues by \$419 million in the 2000-01 fiscal year, which is the base year for the next 20001-03 biennium. The 2000-01 budget is balanced because of the \$545 million that is carried forward from the 1999-00 fiscal year. The general fund for the 1999-01 biennium has a July 1, 1999, estimated opening balance of \$550 million, but ends with an estimated balance of \$5 million on June 30, 2001, under the bill.

2. The letter also provided an estimate of the general fund condition statement for the 2001-03 biennium based on current law and the provisions of AB 133. Projected changes that may be made by the Legislature were not incorporated into the analysis. The estimated condition statement showed that based on these assumptions, appropriations exceed revenues by \$710 million in 2001-02 and \$964 million in 2002-03. It was estimated that revenue growth of 6.7% would be needed in the first year of the biennium to make up the shortfall and that an additional increase of 2.2% would be needed in the second year.

3. The Governor's recommended individual income tax modifications contribute to the structural imbalance because they would reduce revenues by an estimated \$273.2 million in 2000-01, which is equal to 65% of the total \$419 million difference noted above. If the proposed tax reduction were spread out evenly over the two years of the 1999-01 biennium, the 2000-01 balance would increase by \$136.6 million (half of the \$273.2 million amount).

4. In order to address the projected structural imbalance for the 2001-03 biennium, a tax reduction could be made on a temporary basis during the 1999-01 biennium. This change would reduce the projected structural imbalance in the 2001-03 biennium by approximately \$260 million in each year. However, other changes would still need to be made to ongoing expenditures and/or revenues in order to fully address the structural deficit.

### Income Tax Alternatives

5. An alternative to the Governor's recommended individual income tax modifications that would address the structural imbalance of the general fund would be to provide a temporary income tax reduction at a cost that is similar to the bill provisions (as intended). There are four alternatives presented in this paper: two would reduce the income tax rates and two would increase the PTRC. Two of the alternatives would provide a income tax reduction on a temporary basis in tax years 1999 and 2000 and the other two options would provide a one-time tax reduction in tax year 2000. As noted, each of these alternatives would improve the projected 2001-03 general fund condition statement by approximately \$260 million in each year. The options to provide a temporary tax cut in 1999 and 2000 would also improve the 2000-01 balance.

6. The individual income tax would resume to the current law structure in tax year 2001 and thereafter under each of the options provided.

### Rate Reduction in 1999 and 2000

7. An option to reduce the income tax rates to the amounts shown below in tax years 1999 and 2000 would reduce income tax revenues by an estimated \$131.9 million in 1999-00 and \$139.1 million in 2000-01 as compared to current law. The total reduction for the biennium would be \$271.0 million. These rates reflect a 2.4% reduction from the current law tax rates. The tax brackets shown below are for 1999 and would continue to be indexed for changes in inflation in 2000 under the alternative.

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>	
<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>	<u>Current Law</u>	<u>Alternative</u>
Less than \$7,620	Less than \$10,160	Less than \$5,080	4.77%	4.66%
7,620 to 15,240	10,160 to 20,320	5,080 to 10,160	6.37	6.22
15,240 and Over	20,320 and Over	10,160 and Over	6.77	6.61

### Rate Reduction in 2000

8. Current law income tax revenues would be reduced by an estimated \$274.0 million in 2000-01 if the tax rates were reduced to the amounts shown below on a one-time basis in tax year 2000. These rates reflect a reduction of approximately 4.7% from the current law tax rates. The tax brackets would continue to be indexed for changes in inflation under this alternative.

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>	
<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>	<u>Current Law</u>	<u>Alternative</u>
Less than \$7,790	Less than \$10,380	Less than \$5,190	4.77%	4.54%
7,790 to 15,580	10,380 to 20,770	5,190 to 10,380	6.37	6.07
15,580 and Over	20,770 and Over	10,380 and Over	6.77	6.46

### PTRC Increase in 1999 and 2000

9. The PTRC is currently 10% of property taxes, or rent constituting property taxes, to a maximum of \$2,000 in taxes (the maximum credit is \$200); the credit was increased to 14% of property taxes or rent to a maximum of \$2,500 in taxes on a one-time basis in tax year 1998 (the maximum credit was \$350). Increasing the PTRC to 14.25% of property taxes, or rent constituting property taxes, in tax years 1999 and 2000 would reduce estimated income tax collections by \$135.3 million in 1999-00 and \$139.3 million in 2000-01 as compared to current law. The total estimated cost for the 1999-01 biennium would be \$274.6 million. The maximum amount of property taxes or rent that could be used to claim the credit under this alternative would be \$2,500; the maximum credit would be approximately \$356.

## PTRC Increase in 2000

10. An alternative to increase the PTRC to 19.25% of property taxes, or rent constituting property taxes, to a maximum of \$2,500 in property taxes or rent on a one-time basis in tax year 2000 would cost an estimated \$264.3 million in 2000-01. The maximum credit would be approximately \$481 under this option.

## ALTERNATIVES

1. Eliminate the Governor's recommendation. Reduce the income tax rates from 4.77%/6.37%/6.77% to 4.66%/6.22%/6.61% on a temporary basis in tax years 1999 and 2000. Compared to the bill, this option would reduce revenues by an estimated \$131,900,000 in 1999-00 and increase revenues by \$134,100,000 in 2000-01.

<u>Alternative 1</u>	<u>GPR</u>
1999-01 REVENUE (Change to Bill)	\$2,200,000

2. Eliminate the Governor's recommendation. Reduce the income tax rates from 4.77%/6.37%/6.77% to 4.54%/6.07%/6.46% on a one-time basis in tax year 2000. Compared to the bill, this alternative would reduce revenues by an estimated \$800,000 in 2000-01.

<u>Alternative 2</u>	<u>GPR</u>
1999-01 REVENUE (Change to Bill)	- \$800,000

3. Eliminate the Governor's recommendation. Increase the PTRC to 14.25% of property taxes, or rent constituting property taxes, to a maximum of \$2,500 in taxes, on a temporary basis in tax years 1999 and 2000. The maximum credit would be \$365. Compared to the bill, revenues would be decreased by an estimated \$135,300,000 in 1999-00 and increased by \$133,900,000 in 2000-01.

<u>Alternative 3</u>	<u>GPR</u>
1999-01 REVENUE (Change to Bill)	- \$1,400,000

4. Eliminate the Governor's recommendation. Increase the PTRC to 19.25% of property taxes, or rent constituting property taxes, to a maximum of \$2,500 in taxes, on a one-time basis in tax year 2000. The maximum credit would be \$481. Compared to the bill, revenues would be increased by an estimated \$8,900,000 in 2000-01.

<u>Alternative 4</u>	<u>GPR</u>
1999-01 REVENUE (Change to Bill)	\$8,900,000

Prepared by: Kelsie Doty

**(Gov) Agency:** General Fund Taxes - Individual & Corporate Taxes  
Indexing

**Recommendations:**

**Paper No. 108:** Alternatives 1 and 3

**Comments:** Alternative 1 is just a technical correction. Alternative 3 retains (i.e. does not suspend) indexing in 1999 as the governor did.

**prepared by:** Barry



## Legislative Fiscal Bureau

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June 7, 1999

Joint Committee on Finance

Paper #108

### **Individual Income Tax: Indexing (General Fund Taxes -- Individual and Corporate Income Taxes)**

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

#### **CURRENT LAW**

The 1997-99 biennial budget (1997 Wisconsin Act 27) provided for the indexing of the standard deduction and income tax brackets for changes in inflation, beginning in tax year 1999. Under this mechanism, the income and maximum deduction amounts under the standard deduction will be adjusted for annual changes in the U.S. consumer price index (CPI) for all urban consumers, U.S. city average, for the month of August, rounded to the nearest \$10. The income tax brackets will also be adjusted under the same mechanism.

#### **GOVERNOR**

Maintain indexing in tax year 1999. Increase the standard deduction statutorily in tax year 2000 and resume indexing in 2001 and thereafter. The bill would also suspend the indexing of the tax brackets in tax years 2000 and 2001, to be resumed in 2002 and thereafter. This provision is discussed in a separate issue paper on the individual income tax rates and brackets.

#### **DISCUSSION POINTS**

1. This paper raises two points related to indexing. First, information on technical modifications to the current indexing mechanism is provided. Second, indexing the tax credits and proposed exemptions is also discussed.

#### **Technical Modifications to the Current Indexing Mechanism**

2. There are two problems with the current mechanism that is used to determine the

indexing adjustment. First, the current provision does not allow for the standard deduction to be calculated accurately for taxpayers in the phase-out range due to a technical problem with the indexing formula. This can be resolved by not indexing the maximum income amount, which would instead be derived based on the other parameters of the standard deduction formula (the maximum standard deduction, the phase-out income amount and the phase-out rate). This modification would have a minimal effect on tax revenues.

3. Second, it is not clear whether the indexing adjustments to be made after tax year 1999 should be based on the rounded or unrounded amounts. For example, the maximum standard deduction for single taxpayers in 1999 is \$5,280, which is \$5,283.20 rounded to the nearest \$10. The question is whether the maximum standard deduction for 2000 should be based on the \$5,280 or the \$5,283.20 figure. Using the rounded amounts could result in a lower or higher indexing adjustment as opposed to using the unrounded figures depending on whether the amounts were rounded up or down. This issue could be resolved by using a specific year (such as tax year 1998) as the base year and indexing the amounts accordingly. This is the same indexing mechanism used for federal income tax purposes. This change would also have a minimal impact on state tax collections.

### **Adjust Income Tax Credits and Proposed Exemptions for Changes in Inflation**

4. The indexing provisions of Act 27 were adopted because, over time, an individual whose income kept pace with inflation would move into a higher marginal tax bracket and their standard deduction would become smaller.

5. In addition to the tax brackets and standard deduction, other tax provisions that are calculated based on fixed dollar amounts decrease in value in real terms if not adjusted for changes in inflation. Indexing the tax credits that are provided under current law for changes in inflation beginning in tax year 1999 would reduce income tax revenues by an estimated \$4,400,000 in 1999-00 and, if the Governor's income tax modifications are not adopted, \$11,100,000 in 2000-01. This alternative includes indexing the dependent credit, senior credit (including the income limits), the property tax/rent credit (PTRC) and the working families credit. Current law could also be modified to require the indexing of the married couple credit beginning in tax year 2001 after the increase adopted in Act 27 is fully phased-in (this would have no fiscal impact in the current biennium).

6. If the Governor's proposal is adopted, it could be modified to provide for the indexing of the personal exemptions and the married couple credit beginning in tax year 2002. Although this alternative would have no effect on revenues in the 1999-01 biennium, it is estimated to reduce collections by \$8,800,000 in 2002-03 and \$14,800,000 in 2003-04 (in 2000-01 dollars).

## **ALTERNATIVES**

### **Technical Modifications to the Current Indexing Mechanism**

1. Modify the current indexing provisions by: (a) eliminating the maximum income

amounts for the standard deduction from the statutes; and (b) specifying that the tax brackets and standard deduction be indexed based on the 1998 amounts. These changes would allow the standard deduction to be calculated accurately for taxpayers in the phase-out range for the deduction and would incorporate the federal indexing method into state law.

### **Adjust Income Tax Credits and Proposed Exemptions for Changes in Inflation**

2. Index the current law dependent credit, senior credit (including the income limits), PTRC and working families credit beginning in tax year 1999. Index the married couple credit beginning in tax year 2002. Income tax revenues would be reduced by an estimated \$4,400,000 in 1999-00 and \$11,100,000 in 2000-01 if the Governor's proposed income tax modifications are not adopted. This alternative reflects maintaining the current law income tax provisions.

<u>Alternative 2</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	- \$15,500,000

3. Index the current law dependent credit, senior credit (including the income limits), PTRC and working families credit in tax year 1999. Income tax revenues would be reduced by an estimated \$4,400,000 in 1999-00. This alternative reflects indexing the current law income tax provisions prior to implementation of the Governor's proposal.

<u>Alternative 3</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	- \$4,400,000

4. Index the personal exemptions and married couple credit beginning in tax year 2002. This alternative would apply if the Governor's income tax modifications are adopted into law and would have no fiscal effect in the 1999-01 biennium.

Prepared by: Kelsie Doty

**(Gov) Agency:** General Fund Taxes - Individual & Corporate Taxes  
Withholding Table Adjustment

**Recommendations:**

**Paper No. 109:** Approve Modification to Base

**Comments:** Modification needed because DOR decided not to adjust the withholding tables on January 1, 2000.

**prepared by:** Barry





## Legislative Fiscal Bureau

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June 7, 1999

Joint Committee on Finance

Paper #109

### **Individual Income Tax Modifications: Withholding Table Adjustment (General Fund Taxes -- Individual and Corporate Income Taxes)**

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

#### **CURRENT LAW**

Generally, the Department of Revenue (DOR) is directed to periodically adjust the withholding tables to reflect any statutory changes in the income tax rates, any applicable surtax, changes in the tax bracket amounts or the working families credit. An exception under current law prohibits DOR from adjusting the withholding tables to reflect the rate reduction that took effect in tax year 1998 or any indexing adjustments before January 1, 2000.

Other than adding a withholding exemption for working families credit claimants, the withholding tables were last modified on May 1, 1988.

#### **GOVERNOR**

Modify the current law provisions related to the Department's adjustment of the withholding tables as follows:

a. As under current law, on January 1, 2000, the Department would be allowed, but not required, to adjust the tables to reflect the current law rate reduction that took effect with the 1998 tax year.

b. On July 1, 2000, the Department would be required to adjust the tables to reflect the proposed tax rates for tax year 2001. The Department would also be directed to adjust the tables to reflect bracket indexing. However, the tax brackets would not be indexed in 2000 and 2001 under the bill.

## MODIFICATION

Increase projected income tax collections by \$62 million in 1999-00 and reduce estimated collections by \$62 million in 2000-01.

**Explanation:** This modification reflects a decision by the Department of Revenue to not adjust the withholding tables on January 1, 2000, to reflect the 1998 tax rates and indexing adjustments. The Department intends to adjust the tables on July 1, 2000, and again on January 1, 2001, to reflect the various income tax provisions contained in the budget bill. The Department recommends that the January 1, 2000, adjustment not be made for two reasons: (a) it would require three withholding tables adjustments to be made within a one-year period; and (b) employers raised concerns about making the necessary software changes for withholding at the same time as making programming modifications related to Year 2000. This change would have no net fiscal impact in the 1999-01 biennium.

Prepared by: Kelsie Doty

**(Gov) Agency:** General Fund Taxes - Individual & Corporate Taxes  
Homestead Tax Credit

**Recommendations:**

**Paper No. 110:** Part A - Alternative 1  
Part B - Alternative 2

**Comments:** Part A is a technical modification/reestimate. Part B - Alternative 2 is the governor plus inflation for homestead filers (i.e. a bigger tax break for low-income folks).

**prepared by:** Barry



## Legislative Fiscal Bureau

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June 7, 1999

Joint Committee on Finance

Paper #110

### **Homestead Tax Credit (General Fund Taxes -- Individual and Corporate Income Taxes)**

[LFB 1999-01 Budget Summary: Page 25, #2 and #3]

#### **CURRENT LAW**

The homestead tax credit program directs property tax relief to low-income homeowners and renters. The amount of the credit received by claimants depends on the interaction of household income and allowable property taxes or rent. For purposes of calculating the credit, household income is adjusted downward by \$250 for each dependent to account for family size. The homestead credit is refundable; that is, a check from the state is issued if the amount of the credit exceeds income tax liability. Because the credit is refundable, it is paid from a GPR sum sufficient appropriation rather than being counted as an offset to individual income tax collections.

For claimants with income of \$8,000 or less, the credit is equal to 80% of property taxes or rent constituting property taxes to a maximum of \$1,450 in property taxes or rent. The maximum credit is \$1,160. "Rent constituting property taxes" is 25% of rent if payment for heat is not included in rent and 20% of rent if payment for heat is included.

For claimants with income exceeding \$8,000, the credit is phased out at a rate of 13% until the credit equals zero when income exceeds \$19,154. For claimants with less than \$1,450 in allowable rent or property taxes, the credit is eliminated at lower income levels. The credit formula can be expressed as a mathematical equation for individuals with income between \$8,000 and \$19,154 as shown below:

$$\text{Current Law Credit} = 80\% ( \text{Property Taxes} - 13\% ( \text{Household Income} - \$8,000 ) )$$

## GOVERNOR --

Increase funding for the credit by \$2,600,000 GPR in 1999-00 and \$1,100,000 GPR in 2000-01 as follows:

a. Decrease funding by \$3,000,000 in 1999-00 and \$5,000,000 in 2000-01 to reflect estimated expenditures for the credit under current law.

b. Increase funding by \$5,600,000 in 1999-00 and \$6,100,000 in 2000-01 to fund the Governor's proposed expansion of the credit. Under the bill, the maximum income amount would increase to \$20,290, beginning with claims filed in 2000 and thereafter based on property taxes accrued during the previous year (tax year 1999). In addition, the bill would reduce the percentage used in phasing out the credit for higher-income claimants from 13% to 11.8%. The proposed homestead credit formula is shown below.

$$\text{Credit} = 80\% (\text{Property Taxes} - 11.8\% (\text{Household Income} - \$8,000))$$

With the reestimate of the current law credit and the proposed expansion, the bill would provide total funding of \$84.6 million in 1999-00 and \$83.1 million in 2000-01.

## DISCUSSION POINTS

### Reestimates

1. The amounts in the bill reflect an estimated cost of \$79.0 million in 1999-00 and \$77.0 million in 2000-01 for the homestead credit under current law. This is a reduction of \$3.0 million in the first year and \$5.0 million in the second year from base level funding of \$82.0 million.

2. Based on projected changes in income, property taxes, rent and population during the 1999-01 biennium, the cost of the homestead credit is reestimated to be \$75.7 million in 1999-00 and \$73.3 million in 2000-01 under current law. Compared to the bill, these estimates are lower by \$3.3 million in 1999-00 and \$3.7 million in 2000-01.

3. Based on the same information, the cost of the expansion proposed by the Governor is also expected to be less than the administration's estimates. Specifically, the expansion is now estimated to cost \$5.5 million in 1999-00 and \$5.3 million in 2000-01. These amounts are lower than the figures prepared by the administration by \$100,000 in 1999-00 and \$800,000 in 2000-01.

4. With both of these revisions, the total cost of the credit is now estimated at \$81.2 million in the first year and \$78.6 million in the second year, a reduction of \$3.4 million in 1999-00 and \$4.5 million in 2000-01 from the administration's estimates.

## Proposed Expansion

5. The homestead credit was first created in 1964 and initially was only available to low-income homeowners and renters age 65 or older; the program was expanded to include any person age 18 or older in 1973. The property tax reimbursement rate was increased from 75% of property taxes or rent paid to 80% in 1971. Beginning with the 1989 tax year, the income threshold was increased from \$7,000 to the current \$8,000 and the provision that household income be reduced by \$250 for each dependent was established. Finally, the current maximum property tax level of \$1,450 and the maximum income of \$19,154 first applied to the 1990 tax year, an increase from \$1,350 and \$18,000, respectively.

6. Table 1 shows the total cost, number of claimants, average credit and major formula factors for the homestead program since 1985-86. With the exception of 1988-89, annual program costs exceeded \$100 million through 1994-95. Expansions in the program's formula factors in the late 1980s and early 1990s increased program costs to \$106 million in 1989-90 and then to \$112 million in 1990-91. Homestead expenditures fell to \$105 million in 1991-92 primarily due to the creation of the lottery credit, which reduced the property taxes paid by homeowners. In 1993-94, expenditures increased to \$109 million due, in part, to a decrease in the lottery credit in the 1993 tax year. Homestead expenditures have fallen in the last four years due to significant increases in state support for public schools and increases in the lottery credit.

**TABLE 1**

### Homestead Tax Credit and Formula Factors

<u>Fiscal Year</u>	<u>Count</u>	<u>Total Credits</u>	<u>Average Credit</u>	<u>Maximum Income</u>	<u>Maximum Property Tax</u>	<u>Income Threshold</u>
1985-86	272,400	\$102,663,000	\$377	\$16,500	\$1,200	\$7,400
1986-87	260,600	102,619,000	394	16,500	1,200	7,600
1987-88	259,800	103,829,000	400	16,500	1,200	7,600
1988-89	248,400	99,450,000	400	16,500	1,200	7,600
1989-90	248,800	106,410,000	428	18,000*	1,350	8,000
1990-91	255,500	112,273,000	439	19,154*	1,450	8,000
1991-92	248,200	105,506,000	425	19,154*	1,450	8,000
1992-93	237,900	104,411,000	439	19,154*	1,450	8,000
1993-94	238,700	109,393,000	458	19,154*	1,450	8,000
1994-95	221,400	100,911,000	456	19,154*	1,450	8,000
1995-96	214,100	96,324,000	450	19,154*	1,450	8,000
1996-97	193,500	86,769,100	448	19,154*	1,450	8,000
1997-98	178,200	79,817,000	448	19,154*	1,450	8,000

\*Beginning in 1989-90, household income is reduced by \$250 for each dependent.

Generally, the number of homestead claimants has declined steadily since the current formula was established. This trend reflects the growth in personal income compared to constant formula factors. In other words, the value of the maximum income amount (\$19,154) becomes

smaller each year in real terms, leaving fewer individuals eligible for the credit. In addition to the factors regarding property taxes mentioned above, the declining participation levels have also decreased program costs.

7. Under the bill, the maximum income amount would be increased from \$19,154 to \$20,290. The maximum amount of allowable property taxes, the income threshold and the maximum credit would not be modified. Since the range of income over which the credit would be phased out for higher-income claimants would be increased and the other formula factors would be held constant, the credit phase-out percentage would be reduced from 13.0% to 11.8%.

8. Attachment 1 to this paper shows the homestead credit received by claimants at various income and property tax levels under current law and under the Governor's proposed expansion. The amount of additional credit is also shown. The attachment shows that claimants with household income above \$8,000 would receive a credit increase under the proposal and households with income between \$19,154 and \$20,290 could become eligible for a credit. Claimants with income of \$8,000 or less would not receive a credit increase.

9. Another option would be to adopt the Governor's recommended credit expansion for claims filed in 2000, with an amendment to adjust the credit for changes in inflation beginning with claims filed in 2001. This alternative is estimated to increase the cost of the credit by \$3.5 million in 2000-01 from the reestimates of the bill. However, this option would cost \$1.0 million less in that year as compared to the amount provided in the bill for the credit. Attachment 2 shows the credit received by claimants at various income and property tax levels under this alternative for 2001 and as compared to current law and the Governor's proposed expansion.

10. In addition to the proposals described above, there are an unlimited number of modifications that could be made to the credit formula to impact the number of claimants and the amount of credit claimed. The effects of modifying the five formula factors are as follows:

**Percent of Property Taxes Reimbursed.** Increasing this percentage (currently 80%) will increase credits for all claimants. This will not affect the distribution of benefits or the number of claimants.

**Property Tax Limit.** Increasing this limit (currently \$1,450) targets the expansion to those claimants with property taxes, or rent constituting property taxes, that exceed the current limit. Claimants with relatively low property tax amounts will either be unaffected or experience a decrease in their homestead credits depending on changes to the other formula factors.

**Maximum Income Level.** Increasing this amount (\$19,154 under current law and \$20,290 under the bill) while holding the maximum property tax and income threshold constant, which would imply a lower phase-out rate due to the interdependence of the formula factors, will expand benefits to all claimants above the threshold factor and will increase the number of eligible claimants. This is the option recommended by the Governor.

**Phase-Out Rate.** If the phase-out rate (13.0% under current law and 11.8% under the bill)

is lowered and the maximum property tax and income threshold (\$8,000) are left unchanged (this would also imply an increase in the maximum income level due to the interdependence of the formula factors), benefits to all claimants with incomes above the income threshold will also be increased. Also, there will be an increase in the number of claimants.

**Income Threshold.** Increasing this factor (currently \$8,000) along with the maximum income level, while holding the maximum property tax and phase-out rate constant, will extend maximum benefits (80% of eligible property taxes) to all claimants between the old and new thresholds. All claimants above the new threshold will also receive increased credits.

## ALTERNATIVES

### A. Reestimate Current Law Credit

1. Reestimate funding for the current law homestead credit at \$75,700,000 in 1999-00 and \$73,300,000 in 2000-01. Reduce funding by \$3,300,000 in 1999-00 and \$3,700,000 in 2000-01 from the amounts provided in the bill to reflect this reestimate.

<u>Alternative A1</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	- \$7,000,000

### B. Proposed Expansion

1. Adopt the Governor's recommendation to increase the maximum income from \$19,154 to \$20,290 beginning with credit claims filed in 2000 for property taxes accrued during the previous year. Decrease funding from the amount provided in the bill by \$100,000 in 1999-00 and \$800,000 in 2000-01 to reflect a reestimate of the cost of the expansion.

<u>Alternative B1</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	- \$900,000

2. Adopt the Governor's recommendation with a modification to adjust the credit formula factors for changes in inflation beginning with claims filed in 2001 for property taxes accrued in the previous year. Decrease funding by \$100,000 in 1999-00 and increase funding by \$2,700,000 in 2000-01 from the amounts provided in the bill to reflect this option.

<u>Alternative B2</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	\$2,600,000



3. Delete the Governor's recommended credit expansion and maintain current law. Decrease funding by \$5,600,000 in 1999-00 and \$6,100,000 in 2000-01.

<u>Alternative B3</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	- \$11,700,000

Prepared by: Kelsie Doty

Attachments

**ATTACHMENT 1**

**Homestead Tax Credit Amounts Under Current Law and  
the Governor's Proposed Expansion at Various Income and Property Tax Levels**

**Current Law Credit**

Income	Property Taxes					
	<u>\$500</u>	<u>\$700</u>	<u>\$900</u>	<u>\$1,100</u>	<u>\$1,300</u>	<u>\$1,450</u>
\$0	\$400	\$560	\$720	\$880	\$1,040	\$1,160
8,000	400	560	720	880	1,040	1,160
9,000	296	456	616	776	936	1,056
10,000	192	352	512	672	832	952
11,000	88	248	408	568	728	848
12,000	0	144	304	464	624	744
13,000	0	40	200	360	520	640
14,000	0	0	96	256	416	536
15,000	0	0	0	152	312	432
16,000	0	0	0	48	208	328
17,000	0	0	0	0	104	224
18,000	0	0	0	0	0	120
19,000	0	0	0	0	0	16
20,000	0	0	0	0	0	0
21,000	0	0	0	0	0	0

**Proposed Expansion**

Income	Property Taxes					
	<u>\$500</u>	<u>\$700</u>	<u>\$900</u>	<u>\$1,100</u>	<u>\$1,300</u>	<u>\$1,450</u>
\$0	\$400	\$560	\$720	\$880	\$1,040	\$1,160
8,000	400	560	720	880	1,040	1,160
9,000	306	466	626	786	946	1,066
10,000	211	371	531	691	851	971
11,000	117	277	437	597	757	877
12,000	22	182	342	502	662	782
13,000	0	88	248	408	568	688
14,000	0	0	154	314	474	594
15,000	0	0	59	219	379	499
16,000	0	0	0	125	285	405
17,000	0	0	0	31	191	311
18,000	0	0	0	0	96	216
19,000	0	0	0	0	2	122
20,000	0	0	0	0	0	27
21,000	0	0	0	0	0	0

**Proposed Expansion -- Change to Current Law**

Income	Property Taxes					
	<u>\$500</u>	<u>\$700</u>	<u>\$900</u>	<u>\$1,100</u>	<u>\$1,300</u>	<u>\$1,450</u>
\$0	\$0	\$0	\$0	\$0	\$0	\$0
8,000	0	0	0	0	0	0
9,000	10	10	10	10	10	10
10,000	19	19	19	19	19	19
11,000	29	29	29	29	29	29
12,000	22	38	38	38	38	38
13,000	0	48	48	48	48	48
14,000	0	0	58	58	58	58
15,000	0	0	59	67	67	67
16,000	0	0	0	77	77	77
17,000	0	0	0	31	87	87
18,000	0	0	0	0	96	96
19,000	0	0	0	0	2	106
20,000	0	0	0	0	0	27
21,000	0	0	0	0	0	0

**ATTACHMENT 2**

**Homestead Tax Credit Amounts Under an Alternative to Adjust the Credit Expansion  
Proposed by the Governor for Changes in Inflation Beginning With Claims Filed in 2001**

**Alternative**

Income	Property Taxes					
	\$500	\$700	\$900	\$1,100	\$1,300	\$1,480
\$0	\$400	\$560	\$720	\$880	\$1,040	\$1,184
8,000	400	560	720	880	1,040	1,184
9,000	324	484	644	804	964	1,108
10,000	230	390	550	710	870	1,014
11,000	136	296	456	616	776	920
12,000	42	202	362	522	682	826
13,000	0	108	268	428	588	732
14,000	0	14	174	334	494	638
15,000	0	0	80	240	400	544
16,000	0	0	0	146	306	450
17,000	0	0	0	51	211	355
18,000	0	0	0	0	117	261
19,000	0	0	0	0	23	167
20,000	0	0	0	0	0	73
21,000	0	0	0	0	0	0

**Alternative -- Change to Current Law**

Income	Property Taxes					
	\$500	\$700	\$900	\$1,100	\$1,300	\$1,480
\$0	\$0	\$0	\$0	\$0	\$0	\$24
8,000	0	0	0	0	0	24
9,000	28	28	28	28	28	52
10,000	38	38	38	38	38	62
11,000	48	48	48	48	48	72
12,000	42	58	58	58	58	82
13,000	0	68	68	68	68	92
14,000	0	14	78	78	78	102
15,000	0	0	80	88	88	112
16,000	0	0	0	98	98	122
17,000	0	0	0	51	107	131
18,000	0	0	0	0	117	141
19,000	0	0	0	0	23	151
20,000	0	0	0	0	0	73
21,000	0	0	0	0	0	0

**Alternative -- Change to Governor's Recommendation**

Income	Property Taxes					
	\$500	\$700	\$900	\$1,100	\$1,300	\$1,480
\$0	\$0	\$0	\$0	\$0	\$0	\$24
8,000	0	0	0	0	0	24
9,000	18	18	18	18	18	42
10,000	19	19	19	19	19	43
11,000	19	19	19	19	19	43
12,000	20	20	20	20	20	44
13,000	0	20	20	20	20	44
14,000	0	14	20	20	20	44
15,000	0	0	21	21	21	45
16,000	0	0	0	21	21	45
17,000	0	0	0	20	20	44
18,000	0	0	0	0	21	45
19,000	0	0	0	0	21	45
20,000	0	0	0	0	0	46
21,000	0	0	0	0	0	0