

Fiscal Estimate - 2019 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 19-1146/1	Introduction Number AB-0231
Description an income tax exemption for cash tips paid to an employee	
Fiscal Effect	
State: <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations </div> <div style="width: 30%;"> <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues </div> <div style="width: 30%;"> <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <div style="display: flex; justify-content: space-around; font-size: small;"> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No </div> <input type="checkbox"/> Decrease Costs </div> </div>	
Local: <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate <div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> 1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory </div> <div style="width: 30%;"> 3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory </div> <div style="width: 30%;"> 5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others 0 <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts </div> </div>	
Fund Sources Affected Affected Ch. 20 Appropriations <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	
Agency/Prepared By DOR/ Bradley Caruth (608) 261-8984	Authorized Signature Michael Oakleaf (608) 261-5173
Date 5/22/2019	

Fiscal Estimate Narratives

DOR 5/22/2019

LRB Number	19-1146/1	Introduction Number	AB-0231	Estimate Type	Original
Description an income tax exemption for cash tips paid to an employee					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, tips are taxable income regardless of whether they are received as cash or included in a charge and regardless of whether they are received directly from customers or indirectly under a tip-sharing arrangement. This bill creates an income tax exemption for cash tips received by an employee from the customers of the employee's employer.

According to the IRS statistics of income, Wisconsin taxpayers reported approximately \$126.8 billion of wages, salaries, and tips in 2016. Moreover, tips accounted for approximately 0.46% of reported wages, salaries, and tips, (\$583 million). Based on a simulation of Wisconsin tax returns identified as reporting tip income, the average marginal effective tax rate for those individuals was 4.0%. That suggests that providing an exemption for all tip income would reduce revenue by approximately \$23.3 million annually.

DOR does not capture data on the share of tips paid in cash compared to other payment methods (credit card or debit card, for example), so the share of tips exempt from taxation under the bill is unknown. However, MasterCard Advisors published a study in 2013 titled, The Cashless Journey, in which they estimated the share of all consumer payments done using cash. They estimated that about 20% of U.S. consumer payments used cash. Applying that share of payments to tip income, suggest that the bill would reduce revenue by about \$4.66 million annually.

To the extent that a larger/smaller share of tips are provided in cash, the fiscal effect would also be larger/smaller. While tip income tends to grow over time, the share of cash tip income is likely to fall, so it is unclear the extent to which cash tips will increase or decrease with time.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2019 Session

Detailed Estimate of Annual Fiscal Effect

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Description an income tax exemption for cash tips paid to an employee			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$	\$
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$See Text	\$
Agency/Prepared By		Authorized Signature	Date
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