Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2021 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 21-5771/1	Introduction Number SB-1049

Description
reducing individual income tax rates on the basis of excess general fund tax collections

Fiscal Effect

State:
- ☐ No State Fiscal Effect
- ☐ Indeterminate
  - ☐ Increase Existing Appropriations
  - ☐ Decrease Existing Appropriations
  - ☐ Create New Appropriations
  - ☐ Increase Existing Revenues
  - ☒ Decrease Existing Revenues
  - ☒ Increase Costs - May be possible to absorb within agency's budget ☒ Yes ☐ No
  - ☐ Decrease Costs

Local:
- ☐ No Local Government Costs
- ☐ Indeterminate
  1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
  2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
  3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
  4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
  5. Types of Local Government Units Affected
     ☐ Towns ☐ Village ☐ Cities ☐ Counties ☐ Others ☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
DOR/ Bradley Caruth (608) 261-8984	Ann DeGarmo (608) 266-7179	3/21/2022

Fiscal Estimate Narratives

DOR 3/21/2022

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Description reducing individual income tax rates on the basis of excess general fund tax collections		

Assumptions Used in Arriving at Fiscal Estimate

Under current state law, there are four individual income tax rates and brackets. The brackets are indexed for inflation. In 2022, the tax rates and brackets under current law for the individuals filing with the 'single' or 'head of household' filing statuses is as follows:

1. For taxable income not exceeding $12,760, 3.54 percent.
2. For taxable income exceeding $12,760, but not $25,520, 4.65 percent.
3. For taxable income exceeding $25,520, but not $280,950, 5.30 percent.
4. For taxable income exceeding $280,950, 7.65 percent.

The tax rates in each bracket for married persons filing jointly and married persons filing separately are the same, but the dollar amounts are approximately one third higher for joint filers and one third lower for separate filers.

This bill decreases the individual income tax rates for tax year 2022 as follows:

1. The rate in the first bracket is decreased to 2.15 percent.
2. The rate in the second bracket is decreased to 2.85 percent.
3. The rate in the third bracket is decreased to 3.20 percent.
4. The rate in the fourth bracket is decreased to 4.50 percent.

Under the bill, if the amount of taxes submitted to the Department of Revenue and deposited into the general fund in any taxable year after 2022 exceeds the estimated amount of such taxes for the corresponding fiscal year under the biennial budget act, DOR must determine how much the individual income tax rates in each tax bracket will be reduced for the next taxable year in order to decrease individual income tax revenue for that taxable year by the excess amount. The bill requires DOR to reduce the individual income tax rates listed in each bracket in proportion to the share of gross tax attributable to each of the tax brackets. The change in the tax rates must carry forward to subsequent taxable years.

Under the bill, DOR must certify and report the change in the tax rates to the Department of Administration, the governor, the Joint Committee on Finance, and the Legislative Audit Bureau. If LAB arrives at a different calculation of the tax rates than that determined by DOR, JCF decides which tax rates apply for the next taxable year.

Under current law, if the amount of moneys projected to be deposited in the general fund during the fiscal year that are designated as "Taxes" in the summary of the biennial budget act is less than the amount of such moneys actually deposited in the general fund during the fiscal year, the DOA secretary must deposit 50 percent of the excess amount into the budget stabilization fund. However, the secretary is not required to make the transfer if the balance of the budget stabilization fund on June 30 of the fiscal year is at least equal to 5 percent of the estimated expenditures from the general fund during the fiscal year. Under the bill, the DOA secretary does not transfer moneys to the budget stabilization fund in any fiscal year corresponding to the taxable year in which an individual income tax rate reduction takes effect, as provided under the bill. In addition, no tax rate reduction made under the bill may cause the general fund balance on June 30 of the fiscal year corresponding to the taxable year to be less than the general fund balance that is required under current law for that fiscal year.

Based on the 2019 DOR tax model, inflated to reflect tax year 2022 income levels, DOR expects the rate change to reduce general purpose revenue by $3.98 billion in tax year 2022, and similar annual amounts thereafter. Assuming that DOR also updates the withholding tables, effective January 1, 2023 to reflect the new rates, that rate reduction would also result in a one-time revenue loss of $1.79 billion, for a combined revenue loss of $5.77 billion in fiscal year 2023.

The bill will also result in additional, unknown revenue losses in subsequent years as DOR continues to adjust tax rates downward to account for differences in forecasted and realized revenue.

Long-Range Fiscal Implications

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2021 Session

Detailed Estimate of Annual Fiscal Effect

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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, ets.)

	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$See Text	$

Agency/Prepared By	**Authorized Signature**	**Date**
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