

Fiscal Estimate - 2025 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 25-0181/1	Introduction Number SB-0036
-----------------------------	------------------------------------

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"/> Increase Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> Indeterminate	<input checked="" type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Increase Existing Appropriations	<input type="checkbox"/> Decrease Existing Appropriations	<input type="checkbox"/> Decrease Costs
<input type="checkbox"/> Create New Appropriations		

Local:

<input type="checkbox"/> No Local Government Costs		
<input type="checkbox"/> Indeterminate		
1. <input type="checkbox"/> Increase Costs	3. <input type="checkbox"/> Increase Revenue	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 <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
2. <input type="checkbox"/> Decrease Costs	4. <input type="checkbox"/> Decrease Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	

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 2/20/2025
---	---	--------------------------

Fiscal Estimate Narratives

DOR 2/20/2025

LRB Number	25-0181/1	Introduction Number	SB-0036	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. It is not certain whether "cash tips" is intended to exclude charged tips or just non-monetary tips such as passes, tickets, or other goods.

According to the IRS statistics of income, Wisconsin taxpayers reported approximately \$161.5 billion of wages, salaries, and tips in 2021. Moreover, tips accounted for approximately 0.51% of reported wages, salaries, and tips, (\$822 million). Based on a simulation of Wisconsin tax returns identified as reporting tip income, the average marginal effective tax rate for those individuals was 3.5%. That suggests that providing an exemption for all tip income would reduce revenue by approximately \$33.7 million annually.

DOR does not capture data on the share of tips paid strictly in cash compared to other payment methods (credit card or debit card, for example), so the share of strictly cash tips 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 exempting strictly cash tips would reduce revenue by about \$6.7 million annually.

To the extent that a larger share of tips is provided in cash or that cash is intended to encompass broader, monetary tips, the fiscal effect would be larger.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2025 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 25-0181/1	Introduction Number SB-0036	
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
DOR/ Bradley Caruth (608) 261-8984	Michael Qakleaf (608) 261-5173	2/20/2025