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# RACHAEL A. CABRAL-GUEVARA

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STATE SENATOR • 19<sup>TH</sup> SENATE DISTRICT

**Testimony before the Senate Committee on Universities and Revenue  
Senator Rachael Cabral-Guevara  
September 26, 2023**

Thank you Chairman Hutton and members of the committee for allowing me to testify today on Senate Bill 435.

Inflation doesn't seem a strong enough word to describe the pain inflicted when you have to choose between paying an electric bill or buying milk. I can't sit by and watch people suffer while the state government in Madison sits on billions of dollars that rightfully belong to the people who earned it.

The proposal you have in front of you today goes a long way to righting this wrong by reducing the tax paid by middle-class folks and retirees. Wisconsin's tax climate is becoming more and more of an outlier in the Midwest. Michigan, Indiana, and Illinois all have flat income tax rates. Iowa is moving towards that model. We can and must do better for families, workers, and retirees. We're determined to make Wisconsin the best place to work, live, and raise a family.

The proposal would save the average Wisconsin taxpayer over \$750 every year by reducing the middle class tax bracket. Under the new rate, families filing jointly who earn between \$18,420 and \$405,550 would be taxed at 4.4%.

This simply allows hardworking families to keep more of the money they earn. The state government in Madison has stockpiled billions of dollars that belong to the people of our state, it's time that money go back into the pockets of the folks who worked tooth and nail for it.

The proposal also makes more retirement income for individuals tax-free. Funds withdrawn from an IRA, 401(k) and other retirement savings accounts or pensions are still subject to Wisconsin income tax. Under the plan, up to a maximum of \$100,000 a year for individuals and \$150,000 for joint filers would be tax free.

The retired parents and grandparents in our state deserve to keep the money they've squirreled away throughout their career. Punishing them for staying near their family in Wisconsin once they retire isn't the way to treat our seniors.

Combined, these two reforms will deliver nearly \$3 billion in tax relief.

This change won't make anyone rich, but it just might let someone keep their parent or grandparent nearby. It might keep food on the table. It might help pay for childcare. As I've said in the past, I trust hardworking Wisconsinites to spend their money more wisely than the government.



# DAVID STEFFEN

STATE REPRESENTATIVE • 4<sup>TH</sup> ASSEMBLY DISTRICT

September 26, 2023

## Testimony to the Senate Committee on Universities and Revenue re: Senate Bill 435

Chairman Hutton and Committee Members:

Thank you for the opportunity to testify in favor of Senate Bill 435, the “Returning Your Surplus” legislation. This proposal will provide meaningful tax relief for our retirees and hardworking middle-class families. With an overall tax-cut of over \$2.9 Billion and the average filer seeing a decrease of \$772 on their taxes, this proposal ensures that Wisconsinites are keeping more of their hard earned paychecks.

Months ago, Senator Cabral-Guevara and I began working on creating Tax-Free Retirement in Wisconsin (AB 384), to help our fixed-income retirees retain more of their retirement savings and ultimately to give them the financial freedom to stay here in Wisconsin. Two of our neighboring states, Illinois and Iowa, offer some sort of tax-free retirement option. Wisconsin must adopt a similar policy if we’d like to truly compete to retain our retirees. When our retirees choose to relocate, it is not just a loss for our communities and families, but for our economy as well.

The bill before you today combines Tax-Free Retirement with a middle-class tax cut to provide more widespread relief during these challenging financial times. The high income tax burden in Wisconsin coupled with crushing nationwide inflation have made affording everyday life a real financial struggle. Our state’s unprecedented budget surplus has placed us in the position to deliver real, meaningful relief to Wisconsin families. As responsible stewards of taxpayer dollars, it’s time to return the surplus to its rightful owners.

### **SB 435 includes two pieces:**

- 1) Exempts \$100,000 of retirement account income for single filers from being taxed and \$150,000 of retirement account income for married-joint filers from being taxed.
- 2) Reduces the tax rate for middle-income earners (the third tax bracket) from 5.3% to 4.4%.

The average Wisconsin family makes about \$67,000 a year. A truly middle-class tax-cut must include our typical families who are finding it harder and harder each day to make ends meet. But perhaps just as important to emphasize—no matter the current financial times, the surplus our state has built is made of taxpayer dollars that must be returned to the taxpayers. SB 435



# DAVID STEFFEN

STATE REPRESENTATIVE • 4<sup>TH</sup> ASSEMBLY DISTRICT

provides a clear pathway to returning the surplus to our hardworking families and our retirees, at a time when relief is needed more than ever.

Thank you again for the opportunity to speak in favor of the “Returning Your Surplus” proposal. I look forward to answering any questions from committee members.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Steffen". The signature is fluid and cursive, with a prominent initial "D" and a long, sweeping underline.

David Steffen  
State Representative  
4<sup>th</sup> Assembly District



# TERRY KATSMAS

STATE REPRESENTATIVE • 26<sup>th</sup> ASSEMBLY DISTRICT

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**Testimony on SB 435**  
**Senate Universities and Revenue Committee**  
**Tuesday, September 26<sup>th</sup>, 2023**

Thank you Chairman Hutton and Senate Universities and Revenue Committee members for allowing me to provide testimony in support of Senate Bill 435.

I am proud to have worked with my legislative colleagues to author this important piece of legislation targeted at returning the surplus to the people of Wisconsin.

SB 435 reduces the marginal tax rate applicable to the third bracket from 5.3% to 4.4% beginning in tax year 2023 as well as expanding the retirement income subtraction.

Wisconsin marginal tax rates are not competitive with our neighbors. In order to attract workers as well as retain our retirees we must look to reduce our overall tax burden.

The average filer will receive a \$772 decrease in tax year 2023, which represents an average total tax liability reduction of 15.9% among filers with a tax decrease.

The retirement subtraction would allow married-joint filers to exclude up to \$150,000 of retirement income (from 401k, 403b, and pension accounts) from state tax. Four states currently offer some form of tax-free retirement, including our neighbors Illinois and Iowa.

SB 435 provides an overall tax cut of \$2.9 Billion. That is real money going back to the taxpayers who have overpaid.

This middle-class tax cut focuses the relief on the families and retirees that have been hit the hardest during these inflationary times.

Thank you again for allowing me to provide testimony in support of SB 435.



**THE LEADING VOICE  
FOR WISCONSIN SMALL  
AND INDEPENDENT BUSINESSES**

**September 26, 2023**

**TO: Members  
Senate Committee on Universities and Revenue**

**FR: Brian Dake  
President  
Wisconsin Independent Businesses**

**RE: 2023 Senate Bill (SB) 435 relating to: lowering the individual income tax rates in the third bracket and increasing and expanding the retirement income subtraction.**

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Chair Hutton and committee members my name is Brian Dake, President of Wisconsin Independent Businesses. Thank you for the opportunity to testify in support of 2023 Senate Bill (SB) 435.

By way of background, Wisconsin Independent Businesses (WIB) was formed in 1977 to provide small, independent business owners with an effective voice in the legislative and regulatory activities of state government. Today, we proudly represent more than 2,000 small business owners throughout Wisconsin. Most of our members (approximately 85%) own and operate businesses which have fewer than 25 employees and/or annual gross revenues of less than \$5 million.

WIB advocates for broad-based tax relief, state tax code simplification and federal-state tax code conformity. SB 435 accomplishes the first two of these important public policy objectives.

***WIB...Helping you where you need it.***

PO Box 2135 | Madison, Wisconsin 53701 | 800-362-9644 | [www.wibiz.org](http://www.wibiz.org)

According to the Legislative Fiscal Bureau, SB 435 would provide more than 1.7 million individual income tax filers with meaningful tax relief. If SB 435 were enacted into law:

- thousands of Wisconsin small business owners would have more money to invest in their businesses;
- most Wisconsin workers would be able to keep more of their hard-earned money;
- Wisconsin taxpayers would have an additional \$2 billion to spend on their priorities over the next two years. We believe a sizable portion of that amount would wind its way through the economy and help support small businesses throughout Wisconsin; and
- the State of Wisconsin would continue to simplify its tax code by reducing the number of taxable income brackets and the number of marginal tax rates from four to three.

We respectfully ask for your support of SB 435.

Thank you in advance for your consideration.

# Wisconsin Economic Priority: **REDUCE THE TAX BURDEN**

Even with significant tax relief over the past decade, Wisconsin continues to be a high-tax state. In fact, Wisconsin is the eighth least tax-friendly state in the country for middle class families, and its high taxes are making the pain of historic inflation even worse. This is especially true for small businesses who file as pass-through entities and pay the individual income tax. Reducing the income tax for all Wisconsinites will make the state more competitive economically and more attractive to employers and workers alike. By reducing the income tax, businesses will have more money to invest into their workforce and local communities, while individuals will have more money in their pockets to afford groceries, gas and other everyday costs that keep going up.

## What is the one thing state government could do to help your business? (Top 3 Answers)

REDUCE TAXES	28%
MAKE HEALTH CARE MORE AFFORDABLE	27%
REDUCE / REFORM REGULATIONS	23%

## What is the one thing state government could do to improve Wisconsin's business climate?

REDUCE TAXES	44%
REDUCE / REFORM REGULATIONS	19%
MAKE HEALTH CARE MORE AFFORDABLE	14%
EDUCATION REFORM	8%
REDUCE SPENDING	6%
REFORM HR LAWS	5%
TORT / LEGAL REFORM	2%
OTHER	2%

*WMC Wisconsin Employer Survey, June 2023*

### FOR MORE INFORMATION CONTACT:

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**TO:** Senate Committee on Universities & Revenue

**FROM:** Evan Umpir, Director of Tax, Transportation, and Legal Affairs

**DATE:** September 26, 2023

**RE:** Testimony on Senate Bill 435

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Thank you Chairman Hutton, Ranking Member Larson, and Committee members for the opportunity to testify on Senate Bill 435. In April, this committee held a hearing on another tax proposal that would have transitioned Wisconsin to a flat rate, joining more than 20 states with no or a flat income tax or considering proposals to institute a flat tax. Between then and now, the Legislature crafted a budget proposal that would have provided \$3.5 billion dollars in tax relief to *all* taxpayers. Unfortunately, most of that plan was vetoed leaving hundreds of thousands of taxpayers with minimal tax relief and billions of dollars of the taxpayers' surplus sitting in the state's checking account. Today, SB 435 gives state government another opportunity to return the taxpayer's surplus to working Wisconsinites who have been overcharged and overpaid in taxes.

This bill would reduce Wisconsin's third highest income tax bracket from 5.3% to 4.4% and make retirement income up to \$100,000 (\$150,000 married/filing separately) tax-free. These measures are a step in the right direction in addressing Wisconsin's business climate and workforce migration challenges.

Since 1911, WMC's mission has been to make Wisconsin the most competitive state in the nation to do business. The state's business climate ranks 27th in the nation, down from our peak at 25th in 2020 after years of consistent progress. In WMC's Summer 2023 Employer Survey we asked, "What is the one thing state government could do to improve Wisconsin's business climate?" Wisconsin employers said "reduce taxes" by more than a 2:1 margin over the next closest policy action (Reduce/Reform Regulations – 19%). Likewise, reduce taxes was again the top answer in response to "what is the one thing state government could do to help your business?" Businesses in all sectors and of all sizes, as well as individuals, have been feeling the pressures of inflation.

With a workforce more mobile than ever and able to pursue opportunities across the country, workers are flocking to states where jobs are abundant and taxes are low; on the flip side, businesses, when looking to start up or expand, look at the availability of workers and a state's tax and business climate. Unfortunately, Wisconsin employers are in tight competition to attract and retain employees and our tax climate is less enticing than other states, even compared to our immediate neighbors. Whether an employee or employer, increasingly the grass is looking greener in states other than Wisconsin.

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*WMC is the combined state chamber of commerce, manufacturers' association and safety council.*



Wisconsin's third income tax bracket (5.3%) is higher than the top rate, flat or moving to flat rate, or no income tax levied in 21 other states – that is 21 other competitors we must be competing with for workers. In fact, between 2020 and 2022, states with population gain had a top average income tax rate of 3.78%; Wisconsinites affected by the change in this bill are paying more than a point and a half *more* than states seeing recent population growth. Specifically looking at 18–34-year-olds, prime working- and family-age individuals, the average top income tax rate that saw the greatest growth in this demographic was 2.3%—*more than two points lower than what is proposed in this bill and significantly lower than Wisconsin's small business tax rate.* **Bottom line, Wisconsin must create a better tax climate for workers if we want to stem population losses, retain a robust worker pool, and remain competitive for employers to remain and expand in our state.**

Not only is Wisconsin over-taxing its workers and businesses, but after a lifetime of hard work, retirees' savings can be subject to income tax as well. Not only are workers seeking greener pastures for their work opportunities, but retirees also keep taxes in mind when evaluating where to spend their hard-earned retirement time and dollars. Wisconsin should be incentivizing a conducive environment for these individuals to retain the boost to our economy that comes with their sales and property taxes they pay. And especially with this demographic, inflation can devastate the value of retirement savings. SB 435 will help keep retirees in Wisconsin, as well as their retirement spending at Wisconsin businesses.

**The bottom line is, for both businesses and individuals, Wisconsin cannot afford to do nothing about our tax climate; doing nothing is falling behind.** Fifteen years ago, Utah adopted a 5% flat tax, but more recently, Arizona moved to a 2.5% flat rate and Colorado a 4.4% rate; this left the president of the Utah Taxpayer Association saying, “We’re no longer the cool kid on the block at all.”<sup>1</sup>

**Wisconsin's small business tax rate (7.65%) is currently 8th highest in the nation.** This is significant because approximately 90 percent of Wisconsin businesses are pass-through entities, most of which are subject to this high rate. The tax bracket targeted in SB 435, 5.3%, is currently higher than 29 other states which have no or lower *top or flat* income tax rates. Even if this bill were to become law, Wisconsin workers would still have nearly 20 other states with no income tax or tax rates on par or below the proposed 4.4% rate, including six of our neighbors and regional competitors.<sup>2</sup> It should be noted that Governor Jared Polis in the blue state of Colorado, with a 4.4% *flat* rate, hopes to *eliminate* the state's income tax altogether!<sup>3</sup>

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<sup>1</sup> Editorial Board, “The State Tax-Cut Movement,” The Wall Street Journal (February 3, 2023), available at: <https://www.wsj.com/articles/the-state-tax-cut-movement-budget-revenue-flat-tax-11675120292>.

<sup>2</sup> Pennsylvania, 3.07% flat rate; Indiana 3.15% flat rate dropping to 2.9% by 2029 if triggers met; Ohio 3.99%; Iowa 3.9% flat rate by 2026; Michigan 4.05% flat rate; Kentucky 4.5% reducing .5% every year when triggers met.

<sup>3</sup> Ben Murrey, “Colorado on Track to Eliminate Its Income Tax,” National Review (February 7, 2023), available at: <https://www.nationalreview.com/2023/02/colorado-on-track-to-eliminate-its-income-tax/> (“I don’t expect that we can fully eliminate the income tax by our 150th anniversary [in 2026], but let’s continue to make progress.”).

Wisconsin must compete against 43 states that have a lower top rate or no income tax at all. Nine states have no income tax (Alaska, Florida, Nevada, New Hampshire,<sup>4</sup> South Dakota, Tennessee, Texas, Washington, and Wyoming); another **13 states have a flat rate or are moving toward one currently** (Arizona, Colorado, Georgia, Iowa, Idaho, Illinois, Indiana, Kentucky, Michigan, Mississippi, North Carolina, Pennsylvania, and Utah).

Wisconsin *must* position itself as the most competitive it can be, both in the Midwest and nationally. SB 435 is a step in the right direction.

\* \* \*

“Research shows that people follow opportunity, but high taxes can serve as a deterrent. As other states take action, Wisconsin cannot rest on its laurels. A bold tax reform plan will help drive the state’s economy forward.” – WMC Foundation’s *Wisconsin 2035* Report

As states across the country consider tax relief, Wisconsin cannot afford to fall behind. Wisconsin has one of the highest marginal tax rates for small businesses in the country. While SB 435 makes progress to better Wisconsin’s tax climate for individuals and businesses, the state will continue to face worker migration challenges and a worsening business climate without comprehensive, significant tax reform for individuals and small businesses alike.

If recently re-elected Democrat Governor Jared Polis can make progress toward his goal of *eliminating* Colorado’s individual income tax<sup>5</sup> and remain the “cool kid on the block,” surely Wisconsin can charge “Forward” and return the taxpayers’ surplus, the people’s surplus, to those who have been overcharged by their government.

Thank you for your time and consideration of SB 435.

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<sup>4</sup> New Hampshire taxes *only* investment income at 4%, which will be phased out at the end of 2026.

<sup>5</sup> See *supra* note 3.

# TAX RATES MOVE PEOPLE

## TOP 10 STATES WITH GREATEST % POPULATION LOSS & GAIN

**6.82% AVG**  
**INCOME TAX RATE**  
 (states with population loss)



Between 2020-2022, people moved from high income tax states for lower income tax states

**3.78% AVG**  
**INCOME TAX RATE**  
 (states with population gains)

## AVERAGE POPULATION CHANGE DUE TO DOMESTIC MIGRATION 2020-2022

**1.29%**

**GAIN**

TOP 10 HIGHEST INCOME TAX STATES

WISCONSIN  
 8<sup>TH</sup> HIGHEST TOP INCOME TAX RATE  
**7.65%**

TOP 10 LOWEST INCOME TAX STATES

**LOSS**

**-0.64%**

**-0.20%**  
 WISCONSIN

**2.3%**

Average 2023 tax rate of the top 10 states that saw the **largest percentage of 18-34 year-old population growth** from 2010-2020

**Half** of these states have **no income tax**

**Nine** of these top 10 states have a **top or flat rate at or below 5.0%**

This demographic grew by **13%** in these states

### LOW TAX STATES

4 people move in for every 1 person who leaves



### HIGH TAX STATES

2.5 people leave for every 1 person who moves in



Source: Redfin

Sources: U.S. Census Bureau, Author's Calculations and Redfin

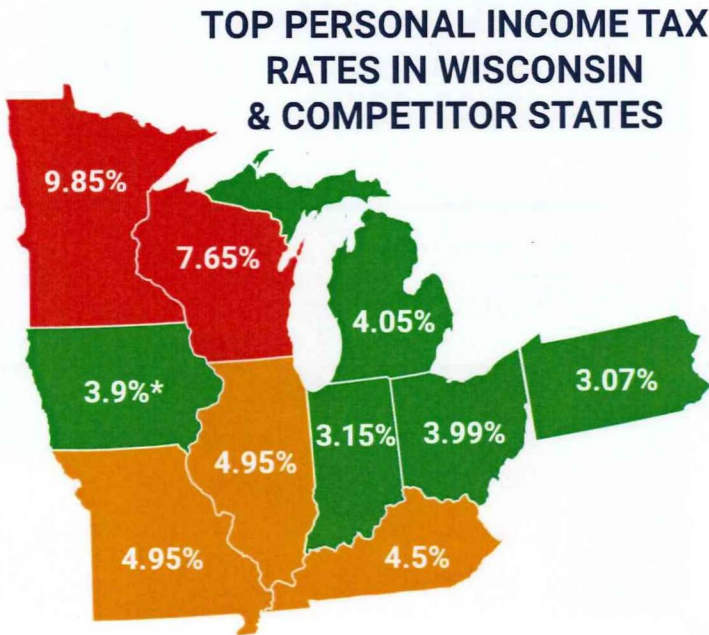
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# MAGIC NUMBER OF 5

## STATES WITH TOP PERSONAL INCOME TAX RATES UNDER 5% FLOURISH



\* Iowa is moving to a 3.9% flat tax in 2026

### AVERAGE % POPULATION CHANGE DUE TO DOMESTIC MIGRATION (2020-2022)

STATE TAX RATE



### STATES THAT GAINED AND LOST POPULATION DUE TO DOMESTIC MIGRATION (2020-2022)

STATE POPULATION

AVERAGE TAX RATE



### AVG STATE PERSONAL INCOME TAX RATES

All States with <b>Population Loss &amp; Growth, 2020-2022</b>	<b>6.65%</b> (States that Lost Population)	<b>4.15%</b> (States that Gained Population)
Wisconsin & Competitor States with <b>Population Change Due to Domestic Migration 2020-2022</b>	<b>5.35%</b> (States that Lost Population)	<b>4.20%</b> (States that Gained Population)
All States <b>18-34 Year-Old Population Change, 2010-2020</b> (Avg % Change 4.9%)	<b>5.41%</b> (States Below 4.9% Change)	<b>4.56%</b> (States Above 4.9% Change)
Wisconsin & Competitor States <b>18-34 Year-Old Population Change 2010-2020</b> (Avg % Change 2.2%)	<b>5.51%</b> (States Below 2.2% Change)	<b>4.67%</b> (States Above 2.2% Change)

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