



Testimony before the Steering Committee for Symposia  
Series on State Income Tax

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Goals:

As stated in a separate handout under Guiding Principles.

Neighboring States' Individual Income Tax Rates

- Wisconsin - 7.75% is the highest rate. Starting point is federal adjusted gross income (AGI).
- Illinois - 5% is the flat rate. Starting point is federal AGI.
- Minnesota - 7.85% is the highest rate. Starting point is federal taxable income.
- Michigan - 4.35% is the flat rate. Starting point is federal AGI.

Wisconsin Income Tax Form 1 Schedule I - Adjustments to convert 2011 Federal AGI and itemized deductions to the amounts allowable for Wisconsin:

Part I - Items affecting the computation of federal AGI

- Section 179 expensing
- Depreciation
- Deduction of Domestic Production Activities
- Total of 47 items

Part II - Items affecting the tax computation of itemized deductions

- If federal AGI is adjusted, the Wisconsin itemized deduction credit for medical expenses, contributions, and interest expense must be recalculated.
- 4 items are listed

## Wisconsin Modifications to Federal AGI

Additions - Instructions to Form 1 list 29 items

Subtractions - Instructions to Form 1 list 35 items

Additions/Subtractions - Instructions to Form 1 list 5 items

## Wisconsin Credits

24 non-refundable credits

14 refundable credits

## Application of Various Modifications and Credits to My Clients

(Probably not a good sample of Wisconsin taxpayers)

<u>Modifications</u>	<u>Applicable Percentage (%) to My Clients</u>
Domestic Production Activity Deduction	14%
State and municipal interest	43%
Capital gain/loss addition	46%
Depreciation	11%
State income tax refund	7%
United States government interest	18%
Social Security	32%
Capital gain/loss subtraction	50%
Medical care insurance	18%
Wisconsin net operating loss carry forward	7%
Edvest	7%
Tax-Option(S) Corporation adjustments	21%
Partnership adjustments	46%
Trust adjustments	18%
State and municipal allocable expenses	14%

### Credits

#### Itemized deduction credit:

Medical	4%
Interest	61%
Gifts to charity	96%
School Property Tax Credit	96%
Married couple credit	18%
Other Credits	4%
Net income tax paid to another state	14%

### Recommendations

- The most current federal tax law should be used.
- Begin tax calculation with federal AGI just as it does now.
- Eliminate as many modifications as possible including the depreciation adjustments.
- Eliminate 30% capital gain exclusion.
- Eliminate the marriage penalty in the rate table.
- Since Wisconsin tax rates are not that progressive, consider a single tax rate for all taxpayers.
- Eliminate as many credits as possible including highly used credits such as the itemized deduction, school property tax, and married couple credits.
- Limit the credit for taxes paid to other states to a percentage of Wisconsin tax on the income.
- Eliminate the Wisconsin alternative tax.
- Due to the above changes, all the tax rates should be able to be reduced.

