



Legislative Fiscal Bureau

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February 7, 2019

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 4 and Senate Bill 18: Increasing the Maximum Deduction Under the Individual Income Tax Sliding Scale Standard Deduction

Assembly Bill 4 (AB 4) and Senate Bill 18 (SB 18) are companion bills that would increase the standard deduction under the individual income tax beginning in tax year 2020. AB 4 was introduced on February 1, 2019, and referred to the Assembly Committee on Ways and Means. SB 18 was introduced on February 4, 2019, and referred to the Senate Committee on Agriculture, Revenue, and Financial Institutions. The two committees held a joint public hearing on the bills on February 5, 2019.

BACKGROUND

Taxable income, the amount of income that is actually subject to tax, is computed by subtracting the sliding scale standard deduction and personal exemptions from Wisconsin adjusted gross income (AGI). The sliding scale standard deduction is based on formulas that vary by filing status and that phase out the deduction over certain AGI thresholds. The formula factors are indexed for inflation and change each year.

Due to indexing, the factors for tax year 2020 are unknown at this time. However, an indexing adjustment of 2% is estimated, resulting in the following deduction calculations. A maximum deduction of \$20,520 will be extended to married joint filers with Wisconsin AGI less than \$23,050. Single and head-of-household filers with Wisconsin AGI less than \$15,980 will be able to claim maximum deductions of \$11,080 and \$14,310, respectively. As Wisconsin AGI increases, each of the deduction amounts phases down, until it equals \$0 when Wisconsin AGI reaches \$126,802 for married joint filers and \$108,313 for single and head-of-household filers. The deduction phaseouts are based on statutory percentages for each filing type, except the percentage for head-of-household filers changes to the percentage for single filers when Wisconsin AGI exceeds a certain level. The deduction and income phaseout amounts for married separate filers are set equal to 47.5% of the

amounts for married joint filers. The following table displays the estimated deduction amounts by filing status for tax year 2020.

**Sliding Scale Standard Deduction by Filing Status for Tax Year 2020
Estimated Under Current Law**

<u>Filing Status</u>	<u>Wisconsin AGI</u>	<u>Standard Deduction</u>
Married Joint	Less than \$23,050	\$20,520
	\$23,050 to \$126,802	\$20,520 - 19.778% (WAGI - \$23,050)
	Greater than \$126,802	\$0
Single	Less than \$15,980	\$11,080
	\$15,980 to \$108,313	\$11,080 - 12.000% (WAGI - \$15,980)
	Greater than \$108,313	\$0
Head-of-Household	Less than \$15,980	\$14,310
	\$15,980 to \$46,698	\$14,310 - 22.515% (WAGI - \$15,980)
	Greater than \$46,698	Single Standard Deduction
Married Separate	Less than \$10,940	\$9,750
	\$10,940 to \$60,237	\$9,750 - 19.778% (WAGI - \$10,940)
	Greater than \$60,237	\$0

State law authorizes the Department of Revenue (DOR) to adjust the individual income tax withholding tables to reflect changes in tax rates, the imposition of a surtax, or statutory changes to the income brackets for the tax. DOR last changed the withholding tables in April, 2014.

SUMMARY OF AB 4 AND SB 18

The bills would increase the maximum deduction by 20.6% for each filer type, increase the income levels for beginning the deduction phaseout by 17.6%, and modify each of the phaseout percentages so that they are closer together beginning in tax year 2020. The deduction would be structured as follows:

**Sliding Scale Standard Deduction by Filing Status for Tax Year 2020
Under AB 4 and SB 18 Proposal to Expand the Deduction**

<u>Filing Status</u>	<u>Wisconsin AGI</u>	<u>Standard Deduction</u>
Married Joint	Less than \$27,120	\$24,740
	\$27,120 to \$155,413	\$24,740 - 19.284% (WAGI - \$27,120)
	Greater than \$155,413	\$0
Single	Less than \$18,790	\$13,360
	\$18,790 to \$127,408	\$13,360 - 12.300% (WAGI - \$18,790)
	Greater than \$127,408	\$0
Head-of-Household	Less than \$18,790	\$17,260
	\$18,790 to \$59,196	\$17,260 - 21.952% (WAGI - \$18,790)
	Greater than \$59,196	Single Standard Deduction
Married Separate	Less than \$12,880	\$11,750
	\$12,880 to \$73,811	\$11,750 - 19.284% (WAGI - \$12,880)
	Greater than \$73,811	\$0

In addition, the bills would direct DOR to adjust the withholding tables no later than January 1, 2020, to reflect the proposed changes to the sliding scale standard deduction.

FISCAL EFFECT

The bills would reduce individual income tax collections by an estimated \$338.1 million in tax year 2020 and \$350.0 million in tax year 2021. Relative to the tax year 2020 amount, the withholding tables change would result in a revenue reduction of \$152.1 million in 2019-20. The balance of the tax year 2020 estimated revenue reduction, \$186.0 million, would occur in 2020-21, along with a revenue reduction of \$157.5 million related to the tax year 2021 withholding table effect. The total revenue reduction for 2020-21 is estimated at \$343.5 million (\$186.0 million + \$157.5 million), and the reduction for the 2019-21 biennium is estimated at \$495.6 million.

The preceding amounts include both direct and indirect effects resulting from the bills. The bills' direct effect is reduced individual income tax liabilities for taxpayers claiming higher standard deductions. The bills' indirect effect results from the interaction between the standard deduction and the state itemized deduction credit. Because the calculation of the credit is based, in part, on the claimant's standard deduction, a higher standard deduction will result in a decrease in tax credit claims. For tax year 2020, itemized deduction credits are estimated to decrease by \$55.0 million, from \$316.0 million to \$261.0 million.

The bills would result in an estimated 1,987,030 tax filers, or 63.5% of all filers, experiencing an income tax decrease in tax year 2020. The average tax decrease is estimated at \$170, and would be higher for married joint filers (\$231) than for other filers (\$131). However, a higher average percentage reduction is estimated for other filers (7.98%) than for married joint filers (6.66%), and

the average reduction for all filers with a tax decrease is estimated at 7.21%. The tax reduction is targeted to taxpayers with incomes below the expanded income phaseout levels of \$155,413 for married joint filers and \$127,408 for single and head-of-household filers. A small number of filers with higher incomes would also experience tax decreases, but they total fewer than 18,000 filers with decreases of about \$160,000, or about \$9 per filer. These are part-year or nonresidents who calculate their standard deduction based on their federal AGI. Information on the distribution of taxpayers with a tax decrease is included in three attachments to this bill analysis. The distributional tables include the estimated effects by Wisconsin AGI on married joint taxpayers, other (single) taxpayers, and all taxpayers for tax year 2020.

There are also an estimated 830 taxpayers who would experience tax increases, but those increases total only \$12,830 and average only \$15 per taxpayer. These are taxpayers who claim the itemized deduction credit. The credit equals 5% of certain federal itemized deductions in excess of the state standard deduction. For credit claimants' income that is subject to the state's 4% marginal tax rate, the 1% difference between the credit rate and tax rate could result in a tax increase.

Tax filers without a tax change would include those without a tax liability and those with a WAGI above the proposed phaseout level for the deduction.

If a bill decreases state revenues in an annual amount exceeding \$10,000 and either house of the Legislature intends to consider the bill prior to the passage of the biennial budget by both houses of the Legislature, state law requires a statement that the bill is an emergency bill to accompany the legislation.

Prepared by: Rick Olin
Attachments

ATTACHMENT 1

Distribution of Taxpayers with a Tax Decrease Under AB 4 and SB 18 Proposal to Expand the Sliding Scale Standard Deduction All Filers, Tax Year 2020

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease						Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Decrease	Percent of Decrease	Decrease in Net Tax	Average Decrease		
Under \$5,000	15,150	0.76%	-\$161,650	0.05%	-10.93%	-\$11	454,630	3.3%
5,000 to 10,000	13,350	0.67	-368,370	0.11	-12.30	-28	208,370	6.4
10,000 to 15,000	61,590	3.10	-2,664,400	0.79	-36.38	-43	176,110	35.0
15,000 to 20,000	99,450	5.00	-7,702,580	2.28	-36.36	-77	160,480	62.0
20,000 to 25,000	130,170	6.55	-13,880,070	4.11	-30.26	-107	160,860	80.9
25,000 to 30,000	140,590	7.08	-20,523,830	6.07	-25.09	-146	161,060	87.3
30,000 to 40,000	296,370	14.92	-50,701,640	15.00	-18.19	-171	306,000	96.9
40,000 to 50,000	250,900	12.63	-50,280,120	14.87	-13.05	-200	254,940	98.4
50,000 to 60,000	200,440	10.09	-41,555,860	12.29	-9.75	-207	203,440	98.5
60,000 to 70,000	159,570	8.03	-34,466,450	10.19	-8.01	-216	161,960	98.5
70,000 to 80,000	125,940	6.34	-28,721,490	8.50	-7.02	-228	128,620	97.9
80,000 to 90,000	105,100	5.29	-24,776,800	7.33	-6.16	-236	107,540	97.7
90,000 to 100,000	92,020	4.63	-21,505,800	6.36	-5.27	-234	93,950	97.9
100,000 to 125,000	177,450	8.93	-32,507,210	9.62	-3.37	-183	181,200	97.9
125,000 to 150,000	103,200	5.19	-8,111,480	2.40	-1.16	-79	118,290	87.2
150,000 to 200,000	15,710	0.79	-143,370	0.04	-0.12	-9	116,520	13.5
200,000 to 250,000	10	< 0.01	-790	< 0.01	-1.11	-79	50,210	< 0.01
250,000 to 300,000	10	< 0.01	-1,060	< 0.01	-0.96	-106	24,840	< 0.01
300,000 to 500,000	10	< 0.01	-1,570	< 0.01	-1.11	-157	35,020	< 0.01
500,000 and over	---	---	---	---	---	---	25,460	0.0
Total	1,987,030	100.00%	-\$338,074,540	100.00%	-7.21%	-\$170	3,129,500	63.5%

- An estimated 1,987,030, or 63.5% of all tax filers in tax year 2020, would experience a tax decrease under the bill.

- The total tax decrease is estimated at \$338.1 million in tax year 2020.

- For all taxpayers with a tax reduction, the average 2020 tax decrease would be \$170. The average tax decrease would increase as income rises, until reaching \$236 for taxpayers in the \$80,000 to \$90,000 WAGI class.

- For taxpayers with a tax decrease, the decrease would average 7.21%. On average, taxpayers in the \$10,000 to \$20,000 WAGI class would experience the largest percentage decreases (over 36%).

- Taxpayers with WAGI of \$100,000 or less would comprise 85.1% of the taxpayers with a tax decrease and would receive 87.9% of the decrease.

- Taxpayers not experiencing a tax decrease would include those without a tax liability, those with a WAGI above the phaseout level for the deduction, and taxpayers with an itemized deduction credit decrease that exceeds their tax decrease attributable to the expanded standard deduction. An estimated 830 taxpayers may experience a tax increase estimated at \$12,830, or \$15 per taxpayer.

- Data in some cells is suppressed or rounded to protect taxpayer confidentiality.

Source: Department of Revenue simulation of tax year 2020.

ATTACHMENT 2

Distribution of Taxpayers with a Tax Decrease Under AB 4 and SB 18 Proposal to Expand the Sliding Scale Standard Deduction Married Joint Filers, Tax Year 2020

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease						Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Decrease	Percent of Decrease	Decrease in Net Tax	Average Decrease		
Under \$5,000	5,460	0.70%	-\$51,060	0.03%	-8.23%	-\$9	81,020	6.7%
5,000 to 10,000	3,700	0.47	-94,180	0.05	-8.75	-25	28,250	13.1
10,000 to 15,000	2,800	0.36	-130,900	0.07	-9.57	-47	27,730	10.1
15,000 to 20,000	2,400	0.31	-160,040	0.09	-10.19	-67	26,050	9.2
20,000 to 25,000	4,290	0.55	-305,000	0.17	-14.55	-71	28,050	15.3
25,000 to 30,000	14,690	1.87	-1,431,640	0.79	-37.95	-97	32,760	44.8
30,000 to 40,000	65,850	8.40	-12,791,400	7.08	-46.47	-194	72,520	90.8
40,000 to 50,000	70,250	8.97	-20,047,240	11.09	-29.37	-285	72,320	97.1
50,000 to 60,000	70,910	9.05	-21,731,680	12.03	-19.06	-306	72,560	97.7
60,000 to 70,000	72,400	9.24	-22,499,680	12.45	-13.72	-311	73,860	98.0
70,000 to 80,000	71,250	9.09	-22,058,010	12.21	-10.60	-310	72,480	98.3
80,000 to 90,000	69,440	8.86	-21,053,340	11.65	-8.46	-303	70,510	98.5
90,000 to 100,000	67,680	8.64	-19,358,640	10.71	-6.72	-286	68,630	98.6
100,000 to 125,000	145,120	18.52	-30,728,610	17.01	-3.97	-212	147,180	98.6
125,000 to 150,000	101,560	12.96	-8,104,130	4.49	-1.17	-80	103,100	98.5
150,000 to 200,000	15,700	2.00	-142,480	0.08	-0.12	-9	103,820	15.1
200,000 to 250,000	10	< 0.01	-790	< 0.01	-1.11	-79	44,700	< 0.01
250,000 to 300,000	10	< 0.01	-1,060	< 0.01	-0.96	-106	21,890	< 0.01
300,000 to 500,000	10	< 0.01	-1,570	< 0.01	-1.11	-157	30,650	< 0.01
500,000 and over	---	---	---	---	---	---	21,900	0.0
Total	783,530	100.00%	-\$180,691,450	100.00%	-6.66%	-\$231	1,199,980	65.3%

- An estimated 783,530, or 65.3% of married joint filers in tax year 2020, would experience a tax decrease under the bill.
- The total tax decrease for married joint filers is estimated at \$180.7 million in tax year 2020.
- For married joint taxpayers with a tax reduction, the average 2020 tax decrease would be \$231. The average tax decrease would increase as income rises, until reaching \$311 for taxpayers in the \$60,000 to \$70,000 WAGI class.
- For married joint taxpayers with a tax decrease, the decrease would average 6.66%. On average, taxpayers in the \$30,000 to \$40,000 WAGI class would experience the largest percentage decreases (over 46%).
- Married joint taxpayers with WAGI of \$100,000 or less would comprise 66.5% of the taxpayers with a tax decrease and would receive 78.4% of the decrease.
- Taxpayers not experiencing a tax decrease would include those without a tax liability, those with a WAGI above the phaseout level for the deduction, and taxpayers with an itemized deduction credit decrease that exceeds their tax decrease attributable to the expanded standard deduction. An estimated 310 married joint taxpayers may experience a tax increase estimated at \$5,290, or \$17 per taxpayer.
- Data in some cells is suppressed or rounded to protect taxpayer confidentiality.

Source: Department of Revenue simulation of tax year 2020.

ATTACHMENT 3

Distribution of Taxpayers with a Tax Decrease Under AB 4 and SB 18 Proposal to Expand the Sliding Scale Standard Deduction Other Filers, Tax Year 2020

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease						Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Decrease	Percent of Decrease	Decrease in Net Tax	Average Decrease		
Under \$5,000	9,690	0.81%	-\$110,590	0.07%	-12.88%	-\$11	373,610	2.6%
5,000 to 10,000	9,650	0.80	-274,190	0.17	-14.29	-28	180,120	5.4
10,000 to 15,000	58,790	4.88	-2,533,500	1.61	-42.54	-43	148,380	39.6
15,000 to 20,000	97,050	8.06	-7,542,540	4.79	-38.46	-78	134,430	72.2
20,000 to 25,000	125,880	10.46	-13,575,070	8.63	-31.01	-108	132,810	94.8
25,000 to 30,000	125,900	10.46	-19,092,190	12.13	-24.46	-152	128,300	98.1
30,000 to 40,000	230,520	19.15	-37,910,240	24.09	-15.09	-164	233,480	98.7
40,000 to 50,000	180,650	15.01	-30,232,880	19.21	-9.53	-167	182,620	98.9
50,000 to 60,000	129,530	10.76	-19,824,180	12.60	-6.35	-153	130,880	99.0
60,000 to 70,000	87,170	7.24	-11,966,770	7.60	-4.50	-137	88,100	98.9
70,000 to 80,000	54,690	4.54	-6,663,480	4.23	-3.31	-122	56,140	97.4
80,000 to 90,000	35,660	2.96	-3,723,460	2.37	-2.43	-104	37,030	96.3
90,000 to 100,000	24,340	2.02	-2,147,160	1.36	-1.79	-88	25,320	96.1
100,000 to 125,000	32,330	2.69	-1,778,600	1.13	-0.94	-55	34,020	95.0
125,000 to 150,000	1,640	0.14	-7,350	< 0.01	-0.07	-4	15,190	10.8
150,000 to 200,000	10	< 0.01	-890	< 0.01	-1.14	-89	12,700	0.1
200,000 to 250,000	---	---	---	---	---	---	5,510	0.0
250,000 to 300,000	---	---	---	---	---	---	2,950	0.0
300,000 to 500,000	---	---	---	---	---	---	4,370	0.0
500,000 and over	---	---	---	---	---	---	3,560	0.0
Total	1,203,500	100.00%	-\$157,383,090	100.00%	-7.98%	-\$131	1,929,520	62.4%

- An estimated 1,203,500, or 62.4% of other tax filers in tax year 2020, would experience a tax decrease under the bill.
- The total tax decrease for other filers is estimated at \$157.4 million in tax year 2020.
- For other taxpayers with a tax reduction, the average 2020 tax decrease would be \$131. The average tax decrease would increase as income rises, until reaching \$167 for taxpayers in the \$40,000 to \$50,000 WAGI class.
- For other taxpayers with a tax decrease, the decrease would average 7.98%. On average, taxpayers in the \$10,000 to \$15,000 WAGI class would experience the largest percentage decreases (over 42%).
- Other taxpayers with WAGI of \$100,000 or less would comprise 97.2% of the taxpayers with a tax decrease and would receive 98.9% of the decrease.
- Taxpayers not experiencing a tax decrease would include those without a tax liability, those with a WAGI above the phaseout level for the deduction, and taxpayers with an itemized deduction credit decrease that exceeds their tax decrease attributable to the expanded standard deduction. An estimated 520 taxpayers may experience a tax increase estimated at \$7,540, or \$15 per taxpayer.
- Data in some cells is suppressed or rounded to protect taxpayer confidentiality.

Source: Department of Revenue simulation of tax year 2020.