



Legislative Fiscal Bureau

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TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Distributional Information on Proposed Individual Income Tax Rate Reduction

In response to legislative inquiries, this memorandum provides distributional information related to the Governor's proposal to reduce individual income tax rates in Assembly Bill 64 (AB 64) and Senate Bill 30 (SB 30), the 2017-19 biennial budget bills.

Under current law, the state individual income tax employs four tax brackets, with a separate rate assigned to each tax bracket. The tax rate structure is cumulative, so that marginal tax rates apply only to income that falls within the corresponding tax bracket. Therefore, a taxpayer with income exceeding the threshold for the top bracket would have income subject to each of the four tax rates. The tax brackets vary by filing status and are indexed annually for inflation, based on the August, consumer price index (CPI).

In AB 64/SB 30, the Governor proposes to reduce the marginal tax rates that apply to income that falls within the bottom two income brackets of the state's individual income tax from 4.0% to 3.9% and from 5.84% to 5.74%. In addition, the Governor proposes to increase the income threshold separating the second and third tax brackets, thereby causing more income to be subject to the proposed 5.74% marginal rate, as opposed to the 6.27% marginal rate.

Table 1 reports the rate and bracket structure under current law and under the Governor's proposal.

TABLE 1

**Tax Rates and Brackets Under Current Law and Under Governor's Proposal
Tax Years 2017 and 2018**

		Tax Year 2017		
		<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>
Rates and Estimated Brackets -- Current Law				
4.00%	Less than \$11,230		Less than \$14,980	Less than \$7,490
5.84	11,230 to 22,470		14,980 to 29,960	7,490 to 14,980
6.27	22,470 to 247,350		29,960 to 329,810	14,980 to 164,900
7.65	247,350 and Over		329,810 and Over	164,900 and Over
Governor's Proposed Rates and Estimated Brackets				
3.90%	Less than \$11,230		Less than \$14,980	Less than \$7,490
5.74	11,230 to 28,080		14,980 to 37,450	7,490 to 18,720
6.27	28,080 to 247,350		37,450 to 329,810	18,720 to 164,900
7.65	247,350 and Over		329,810 and Over	164,900 and Over
		Tax Year 2018		
		<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>
Rates and Estimated Brackets -- Current Law				
4.00%	Less than \$11,520		Less than \$15,370	Less than \$7,680
5.84	11,520 to 23,050		15,370 to 30,730	7,680 to 15,370
6.27	23,050 to 253,760		30,730 to 338,350	15,370 to 169,180
7.65	253,760 and Over		338,350 and Over	169,180 and Over
Governor's Proposed Rates and Estimated Brackets				
3.90%	Less than \$11,520		Less than \$15,370	Less than \$7,680
5.74	11,520 to 28,810		15,370 to 38,420	7,680 to 19,210
6.27	28,810 to 253,760		38,420 to 338,350	19,210 to 169,180
7.65	253,760 and Over		338,350 and Over	169,180 and Over

As under current law, the proposed tax bracket amounts would be indexed each year based on changes in the consumer price index. However, AB 64/SB 30 would need to be amended to correctly apply the indexing provisions.

This office issued general fund revenue projections for the current year and the coming biennium on January 18, 2017. Those projections include individual income tax collections estimated at \$8,050.0 million in 2016-17, \$8,360.0 million in 2017-18, and \$8,710.0 million in 2018-19. The Department of Administration (DOA) estimates that the proposed rate and bracket changes would cause individual income tax collections to decrease by \$104.4 million in 2017-18 and \$99.1 million in 2018-19. These decreases translate to reductions in individual income tax liabilities estimated at \$95.0 million in tax year 2017, \$98.7 million in tax year 2018, and \$102.9

million in tax year 2019. For tax year 2017, an estimated 2,165,756 taxpayers, or 70.3% of all tax filers, would receive tax decreases, estimated at \$44, on average. The attachment to this memorandum displays the estimated distribution for tax year 2017 of taxpayers with tax decreases by Wisconsin adjusted gross income (WAGI).

Although the biennial budget bill will not likely be enacted until mid-year, the proposed rate and bracket changes for tax year 2017 would apply retroactively to January 1. At this time the administration indicates that no changes to the state withholding tables are anticipated.

RO/sas
Attachment

ATTACHMENT

Distribution of Taxpayers with an Income Tax Decrease Under Governor's Proposed Income Tax Rate Reduction and Tax Bracket Modification, Tax Year 2017

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 Tax Decrease	Percent of Decrease	Average Decrease	Percent Decrease		
Under \$5,000	31,630	1.46%	-\$62,661	0.07%	-\$2	-1.46%	500,493	6.3%
5,000 to 10,000	24,804	1.15	-110,673	0.12	-4	-1.76	233,670	10.6
10,000 to 15,000	71,856	3.32	-265,240	0.28	-4	-2.23	192,777	37.3
15,000 to 20,000	123,158	5.69	-872,156	0.92	-7	-2.94	181,362	67.9
20,000 to 25,000	144,284	6.66	-1,704,668	1.80	-12	-2.98	173,508	83.2
25,000 to 30,000	151,683	7.00	-2,497,900	2.63	-16	-2.66	167,464	90.6
30,000 to 40,000	292,412	13.50	-9,447,184	9.95	-32	-3.27	298,429	98.0
40,000 to 50,000	235,601	10.88	-10,564,852	11.12	-45	-2.87	237,168	99.3
50,000 to 60,000	182,424	8.42	-10,531,654	11.09	-58	-2.71	183,367	99.5
60,000 to 70,000	148,608	6.86	-9,043,002	9.52	-61	-2.27	149,220	99.6
70,000 to 80,000	124,220	5.74	-7,805,270	8.22	-63	-1.93	124,620	99.7
80,000 to 90,000	105,430	4.87	-6,795,165	7.16	-64	-1.68	105,756	99.7
90,000 to 100,000	88,728	4.10	-5,815,676	6.12	-66	-1.48	88,971	99.7
100,000 to 125,000	162,923	7.52	-10,845,754	11.42	-67	-1.23	163,340	99.7
125,000 to 150,000	95,246	4.40	-6,401,195	6.74	-67	-0.99	95,501	99.7
150,000 to 200,000	87,162	4.02	-5,857,679	6.17	-67	-0.76	87,513	99.6
200,000 to 250,000	34,690	1.60	-2,320,129	2.44	-67	-0.56	34,960	99.2
250,000 to 300,000	17,506	0.81	-1,166,953	1.23	-67	-0.44	17,743	98.7
300,000 to 500,000	24,775	1.14	-1,644,364	1.73	-66	-0.30	25,670	96.5
500,000 to 1,000,000	12,796	0.59	-840,241	0.88	-66	-0.16	13,158	97.2
1,000,000 and over	<u>5,820</u>	<u>0.27</u>	<u>-374,141</u>	<u>0.39</u>	-64	<u>-0.04</u>	<u>6,146</u>	94.7
Total	2,165,756	100.00%	-\$94,966,557	100.00%	-\$44	-1.21%	3,080,838	70.3%

Source: Department of Revenue simulation of tax year 2015 returns inflated to tax year 2017.

- An estimated 2,165,756, or 70.3% of all tax filers in 2017, would have a tax decrease under the proposal.
- The total tax decrease is estimated at \$95.0 million in tax year 2017.
- For all taxpayers with a tax reduction, the average 2017 tax decrease would be \$44.
- On average, taxpayers with WAGI between \$30,000 and \$40,000 would experience the largest percentage reduction in net tax liability (3.27%), but that percentage decreases as WAGI increases. The percentage reduction for taxpayers with \$1,000,000 or more of WAGI would be 0.04%.
 - Taxpayers with WAGI greater than \$100,000 comprise 20.4% of those who would receive a tax reduction, and would receive 31.0% of the \$95.0 million total decrease. These taxpayers have 53.3% of WAGI and pay 63.8% of individual income taxes under current law.
 - Taxfilers without a tax decrease would include those with no tax liability under current law and taxpayers subject to the alternative minimum tax.