



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

July 11, 2019

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Individual Income Tax Rate Reductions Under Wisconsin Acts 9 (AB 56) and 10 (AB 251)

This memorandum includes two attachments that display the effects of the individual income tax rate reductions included in 2019 Wisconsin Acts 9 and 10. This memorandum updates a memorandum from this office dated June 20, 2019, reflecting the estimated income tax reductions under provisions adopted by the Joint Committee on Finance. It differs from the previous memorandum because Act 10 has a later effective date (January 1, 2020) than assumed during deliberations of AB 251 (October 1, 2019), affecting the estimated tax year 2020 rate reductions.

Act 9, the 2019-21 biennial budget act, lowers the rate for the second tax bracket from 5.84% to 5.21%, beginning in tax year 2019. As a result, individual income tax collections will decrease by an estimated \$146.2 million in tax year 2019 and \$151.7 million in tax year 2020, resulting in average individual income tax reductions estimated at \$75 and \$77, respectively, among taxpayers receiving a tax decrease.

The tax rate reductions in Act 10 are intended to offset the increased sales and use tax collections attributable to remote sellers and marketplace providers. Under provisions enacted as part of 2013 Wisconsin Act 20, and amended by 2017 Wisconsin Act 368, estimated sales and use tax collected from remote sellers during the 12-month period between October 1, 2018, and September 30, 2019, are to be offset by individual income tax reductions in tax year 2019. Under those acts, the income tax reduction would have been achieved through a proportional reduction in each of the four marginal tax rates based on the amount of gross taxes attributable to each rate. Under Act 10, the tax decrease will be divided into two equal components and targeted as rate reductions for the two bottom tax brackets. The tax year 2019 decrease is estimated at \$60.7 million, resulting in an average reduction of \$27 for taxpayers receiving a tax decrease. It should be noted that the amount of this reduction would have occurred under prior law. However, Act 10 changes how the tax decrease is distributed.

In tax year 2020, the rates for the two bottom brackets will be reduced under Act 10 in the same fashion as in tax year 2019. That is, the reduction will be calculated relative to the tax rates currently enumerated in the statutes, rather than the tax rates in effect in tax year 2019, as described above. Also, the amount of the tax decrease would be based on the estimated amount of sales and use tax collected from remote sellers and from marketplace providers during the 12-month period from October 1, 2019, to September 30, 2020. The tax year 2020 decrease is estimated at \$120.5 million, resulting in an average tax reduction of \$52 for taxpayers receiving a decrease.

Compared to the June 20 memorandum, the estimated tax year 2020 reduction is \$15.8 million less, resulting in an average tax reduction that is \$7 lower. The lower amounts are attributable to a later effective date for the marketplace provider provisions created in Act 10. The Act specifies that the marketplace provider provisions take effect on the first day of the calendar quarter that is at least three months after publication of the Act. The earlier memorandum assumed the enrolled bill would be signed into law and published before July 1, allowing the marketplace provider provisions to take effect on October 1, 2019. However, the Act was not signed into law and published until July 4, so the marketplace provider provisions will not take effect until January 1, 2020. As a result, the marketplace provider provisions will be in effect for only nine months during the 12-month period between October 1, 2019, and September 30, 2020, when the amount of the tax year 2020 income tax reduction is calculated.

The two attachments display the estimated distribution of taxpayers by Wisconsin adjusted gross income for tax years 2019 and 2020 under each of the tax reduction provisions described above. In addition, the attachment for each tax year displays the combined effects of the two tax reductions.

The following table reports the tax rates currently enumerated in the state statutes and the corresponding tax brackets for tax year 2019. The tax brackets change each year because they are indexed for inflation.

**Tax Rates and Brackets Prior to Rate Reductions Under 2019 Wisconsin Acts 9 and 10,
Tax Year 2019**

<u>Tax Rate</u>	<u>Married Joint</u>	<u>Single or Head-of-Household</u>	<u>Married Separate</u>
4.00%	Less than \$15,680	Less than \$11,760	Less than \$7,840
5.84	15,680 to 31,360	11,760 to 23,520	7,840 to 15,680
6.27	31,360 to 345,270	23,520 to 258,950	15,680 to 172,630
7.65	345,270 and over	258,950 and over	172,630 and over

The following table reports the four marginal tax rates enumerated in the state statutes and the estimated tax rate reductions under Acts 9 and 10 for tax year 2019 and tax years 2020, and thereafter.

**Estimated Change in Individual Income Tax Rates Under 2019 Wisconsin Acts 9 and 10,
Tax Years 2019 and 2020**

	<u>Tax Rates Enumerated in the State Statutes</u>	<u>Estimated Rate Reductions Under:</u>		<u>Estimated Tax Rates</u>
		<u>Act 9</u>	<u>Act 10</u>	
Tax Year 2019				
	4.00%	0.00%	-0.11%	3.89%
	5.84	-0.63	-0.13	5.08
	6.27	0.00	0.00	6.27
	7.65	0.00	0.00	7.65
Tax Year 2020 and thereafter				
	4.00%	0.00%	-0.21%	3.79%
	5.84	-0.63	-0.25	4.96
	6.27	0.00	0.00	6.27
	7.65	0.00	0.00	7.65

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Attachments

ATTACHMENT 1

Estimated Distribution of Taxpayers with a Tax Decrease Under Income Tax Rate Reductions in Acts 9 and 10, Tax Year 2019

Wisconsin Adjusted Gross Income	2019 Wisconsin Act 9						2019 Wisconsin Act 10							
	Taxpayers Receiving a Tax Decrease					Count of All Returns	% of All Returns in AGI Class	Taxpayers Receiving a Tax Decrease					Count of All Returns	% of All Returns in AGI Class
	Count	% of Count	Amount of Tax Decrease	% of Decrease	Average Decrease			Count	% of Count	Amount of Tax Decrease	% of Decrease	Average Decrease		
Under \$5,000	16,131	0.8%	-\$46,926	<0.1%	-\$3	472,390	3.4%	27,281	1.2%	-\$50,028	0.1%	-\$2	472,390	5.8%
5,000 to 10,000	12,891	0.7	-94,362	0.1	-7	220,080	5.9	24,364	1.1	-93,106	0.2	-4	220,080	11.1
10,000 to 15,000	11,914	0.6	-152,165	0.1	-13	188,590	6.3	68,378	3.0	-235,451	0.4	-3	188,590	36.3
15,000 to 20,000	11,947	0.6	-244,297	0.2	-20	173,680	6.9	114,540	5.1	-818,047	1.3	-7	173,680	65.9
20,000 to 25,000	62,056	3.2	-811,452	0.6	-13	171,290	36.2	142,510	6.3	-1,748,603	2.9	-12	171,290	83.2
25,000 to 30,000	134,017	6.9	-4,313,772	2.9	-32	169,640	79.0	152,205	6.7	-2,724,155	4.5	-18	169,640	89.7
30,000 to 40,000	275,359	14.1	-16,948,915	11.6	-62	316,190	87.1	309,608	13.7	-7,595,736	12.5	-25	316,190	97.9
40,000 to 50,000	254,269	13.0	-18,375,471	12.6	-72	255,800	99.4	254,183	11.2	-7,340,351	12.1	-29	255,800	99.4
50,000 to 60,000	196,258	10.1	-16,136,072	11.0	-82	197,050	99.6	196,194	8.7	-6,149,781	10.1	-31	197,050	99.6
60,000 to 70,000	155,880	8.0	-13,263,196	9.1	-85	156,370	99.7	155,825	6.9	-5,053,864	8.3	-32	156,370	99.7
70,000 to 80,000	125,732	6.4	-11,057,984	7.6	-88	126,060	99.7	125,707	5.6	-4,213,039	6.9	-34	126,060	99.7
80,000 to 90,000	107,528	5.5	-9,705,619	6.6	-90	107,750	99.8	107,498	4.7	-3,698,485	6.1	-34	107,750	99.8
90,000 to 100,000	91,955	4.7	-8,467,881	5.8	-92	92,090	99.9	91,934	4.1	-3,225,946	5.3	-35	92,090	99.8
100,000 to 125,000	172,394	8.8	-16,189,538	11.1	-94	172,630	99.9	172,341	7.6	-6,168,370	10.2	-36	172,630	99.8
125,000 to 150,000	104,749	5.4	-9,958,470	6.8	-95	104,860	99.9	104,715	4.6	-3,794,609	6.3	-36	104,860	99.9
150,000 to 200,000	100,794	5.2	-9,600,395	6.6	-95	100,950	99.8	100,759	4.5	-3,657,845	6.0	-36	100,950	99.8
200,000 to 250,000	41,838	2.1	-3,971,832	2.7	-95	41,960	99.7	41,810	1.8	-1,513,201	2.5	-36	41,960	99.6
250,000 to 300,000	20,998	1.1	-1,985,605	1.4	-95	21,080	99.6	20,972	0.9	-756,518	1.2	-36	21,080	99.5
300,000 to 500,000	29,818	1.5	-2,799,470	1.9	-94	30,220	98.7	29,789	1.3	-1,066,859	1.8	-36	30,220	98.6
500,000 to 1,000,000	15,507	0.8	-1,443,538	1.0	-93	15,660	99.0	15,496	0.7	-549,925	0.9	-35	15,660	99.0
1,000,000 and over	<u>7,462</u>	<u>0.4</u>	<u>-676,450</u>	<u>0.5</u>	-91	<u>7,640</u>	97.7	<u>7,447</u>	<u>0.3</u>	<u>-257,676</u>	<u>0.4</u>	-35	<u>7,640</u>	97.5
Total	1,949,497	100.0%	-\$146,243,410	100.0%	-\$75	3,141,980	62.0%	2,263,556	100.0%	-\$60,711,595	100.0%	-\$27	3,141,980	72.0%

Wisconsin Adjusted Gross Income	Combined Effects, Acts 9 and 10						
	Taxpayers Receiving a Tax Decrease					Count of All Returns	% of All Returns in AGI Class
	Count	% of Count	Amount of Tax Decrease	% of Decrease	Average Decrease		
Under \$5,000	31,966	1.4%	-\$96,774	<0.1%	-\$3	472,390	6.8%
5,000 to 10,000	25,379	1.1	-187,103	0.1	-7	220,080	11.5
10,000 to 15,000	68,836	3.0	-387,443	0.2	-6	188,590	36.5
15,000 to 20,000	114,821	5.1	-1,061,923	0.5	-9	173,680	66.1
20,000 to 25,000	142,700	6.3	-2,563,130	1.2	-18	171,290	83.3
25,000 to 30,000	152,315	6.7	-7,035,122	3.4	-46	169,640	89.8
30,000 to 40,000	309,800	13.6	-24,500,952	11.8	-79	316,190	98.0
40,000 to 50,000	254,290	11.2	-25,687,290	12.4	-101	255,800	99.4
50,000 to 60,000	196,269	8.6	-22,263,101	10.8	-113	197,050	99.6
60,000 to 70,000	155,893	6.9	-18,302,941	8.9	-117	156,370	99.7
70,000 to 80,000	125,744	5.5	-15,261,100	7.4	-121	126,060	99.7
80,000 to 90,000	107,535	4.7	-13,398,730	6.5	-125	107,750	99.8
90,000 to 100,000	91,959	4.0	-11,690,183	5.7	-127	92,090	99.9
100,000 to 125,000	172,403	7.6	-22,350,474	10.8	-130	172,630	99.9
125,000 to 150,000	104,757	4.6	-13,747,815	6.6	-131	104,860	99.9
150,000 to 200,000	100,803	4.4	-13,254,266	6.4	-131	100,950	99.9
200,000 to 250,000	41,843	1.8	-5,483,996	2.7	-131	41,960	99.7
250,000 to 300,000	21,000	0.9	-2,741,529	1.3	-131	21,080	99.6
300,000 to 500,000	29,824	1.3	-3,865,439	1.9	-130	30,220	98.7
500,000 to 1,000,000	15,513	0.7	-1,993,488	1.0	-129	15,660	99.1
1,000,000 and over	<u>7,469</u>	<u>0.3</u>	<u>-934,147</u>	<u>0.5</u>	-125	<u>7,640</u>	97.8
Total	2,271,119	100.0%	-\$206,806,946	100.0%	-\$91	3,141,980	72.3%

- Under 2019 Wisconsin Act 9, an estimated 1,949,497 taxpayers, or 62.0% of all tax filers, in 2019 will receive a tax decrease. The decrease will total an estimated \$146.2 million and average \$75 per taxpayer.

- Under 2019 Wisconsin Act 10, an estimated 2,263,556 taxpayers, or 72.0% of all tax filers, will receive a tax decrease. The tax decrease will total an estimated \$60.7 million and average \$27 per taxpayer.

- Under the combined effects of Acts 9 and 10, an estimated 2,271,119 taxpayers, or 72.3% of all tax filers, will receive a tax decrease. The decrease will total an estimated \$206.8 million and average \$91 per taxpayer. Due to tax rate rounding, the two tax reduction components do not sum exactly to the combined total.

- Under the tax rates in effect prior to Acts 9 and 10, taxpayers with Wisconsin AGI below \$100,000 comprise 78.5% of the filers with a tax liability and bear 33.5% of the net tax. Under the combined tax rate reductions, they will comprise 78.3% of the taxpayers with a tax decrease, and they will receive 68.9% of the total decrease. Their tax decrease will average \$80.

- Under the tax rates in effect prior to Acts 9 and 10, taxpayers with Wisconsin AGI over \$100,000 comprise 21.5% of the filers with a tax liability and bear 66.5% of the net tax. Under the combined tax rate reductions, they will comprise 21.7% of the taxpayers with a tax decrease, and they will receive 31.1% of the total decrease. Their tax decrease will average \$130.

Based on a simulation of tax year 2019 by the Wisconsin Department of Revenue.

ATTACHMENT 2

Estimated Distribution of Taxpayers with a Tax Decrease Under Income Tax Rate Reductions in Acts 9 and 10, Tax Year 2020

Wisconsin Adjusted Gross Income	2019 Wisconsin Act 9 Taxpayers Receiving a Tax Decrease						2019 Wisconsin Act 10 Taxpayers Receiving a Tax Decrease							
	Count	% of Count	Amount of Tax Decrease	% of Decrease	Average Decrease	Count of All Returns	% of All Returns in AGI Class	Count	% of Count	Amount of Tax Decrease	% of Decrease	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under \$5,000	16,143	0.8%	-\$46,744	<0.1%	-\$3	470,540	3.4%	33,088	1.4%	-\$97,355	0.1%	-\$3	470,540	7.0%
5,000 to 10,000	12,540	0.6	-90,797	0.1	-7	212,390	5.9	25,471	1.1	-173,040	0.1	-7	212,390	12.0
10,000 to 15,000	11,655	0.6	-147,707	0.1	-13	184,210	6.3	68,680	3.0	-415,641	0.3	-6	184,210	37.3
15,000 to 20,000	11,649	0.6	-236,476	0.2	-20	166,810	7.0	108,027	4.7	-1,402,525	1.2	-13	166,810	64.8
20,000 to 25,000	50,161	2.5	-633,454	0.4	-13	167,290	30.0	138,968	6.0	-3,164,813	2.6	-23	167,290	83.1
25,000 to 30,000	129,346	6.5	-3,817,389	2.5	-30	165,390	78.2	147,395	6.4	-4,966,390	4.1	-34	165,390	89.1
30,000 to 40,000	270,615	13.7	-16,726,081	11.0	-62	315,400	85.8	308,934	13.4	-14,514,574	12.0	-47	315,400	97.9
40,000 to 50,000	258,798	13.1	-18,602,566	12.3	-72	260,350	99.4	258,779	11.2	-14,387,232	11.9	-56	260,350	99.4
50,000 to 60,000	200,449	10.1	-16,690,774	11.0	-83	201,340	99.6	200,428	8.7	-12,194,155	10.1	-61	201,340	99.5
60,000 to 70,000	161,179	8.1	-13,863,432	9.1	-86	161,740	99.7	161,162	7.0	-10,125,706	8.4	-63	161,740	99.6
70,000 to 80,000	126,570	6.4	-11,251,638	7.4	-89	126,930	99.7	126,559	5.5	-8,218,604	6.8	-65	126,930	99.7
80,000 to 90,000	108,127	5.5	-9,870,190	6.5	-91	108,430	99.7	108,118	4.7	-7,209,197	6.0	-67	108,430	99.7
90,000 to 100,000	93,304	4.7	-8,700,972	5.7	-93	93,510	99.8	93,296	4.0	-6,355,265	5.3	-68	93,510	99.8
100,000 to 125,000	177,908	9.0	-16,965,725	11.2	-95	178,310	99.8	177,895	7.7	-12,392,069	10.3	-70	178,310	99.8
125,000 to 150,000	113,116	5.7	-10,949,677	7.2	-97	113,470	99.7	113,109	4.9	-7,998,245	6.6	-71	113,470	99.7
150,000 to 200,000	110,097	5.6	-10,688,349	7.0	-97	110,470	99.7	110,072	4.8	-7,806,664	6.5	-71	110,470	99.6
200,000 to 250,000	47,216	2.4	-4,577,254	3.0	-97	47,440	99.5	47,211	2.0	-3,343,319	2.8	-71	47,440	99.5
250,000 to 300,000	23,438	1.2	-2,262,051	1.5	-97	23,600	99.3	23,431	1.0	-1,652,124	1.4	-71	23,600	99.3
300,000 to 500,000	32,910	1.7	-3,153,674	2.1	-96	33,310	98.8	32,902	1.4	-2,303,789	1.9	-70	33,310	98.8
500,000 to 1,000,000	17,040	0.9	-1,618,957	1.1	-95	17,250	98.8	17,032	0.7	-1,182,489	1.0	-69	17,250	98.7
1,000,000 and over	8,241	0.4	-762,635	0.5	-93	8,430	97.8	8,237	0.4	-557,002	0.5	-68	8,430	97.7
Total	1,980,502	100.0%	-\$151,656,542	100.0%	-\$77	3,166,610	62.5%	2,308,794	100.0%	-\$120,460,198	100.0%	-\$52	3,166,610	72.9%

Wisconsin Adjusted Gross Income	Combined Effects, Acts 9 and 10 Taxpayers Receiving a Tax Decrease						
	Count	% of Count	Amount of Tax Decrease	% of Decrease	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under \$5,000	35,739	1.5%	-\$143,957	0.1%	-\$4	470,540	7.6%
5,000 to 10,000	25,941	1.1	-263,266	0.1	-10	212,390	12.2
10,000 to 15,000	68,903	3.0	-563,007	0.2	-8	184,210	37.4
15,000 to 20,000	108,177	4.7	-1,638,795	0.6	-15	166,810	64.9
20,000 to 25,000	139,068	6.0	-3,794,491	1.4	-27	167,290	83.1
25,000 to 30,000	147,454	6.4	-8,782,369	3.2	-60	165,390	89.2
30,000 to 40,000	309,007	13.4	-31,174,064	11.5	-101	315,400	98.0
40,000 to 50,000	258,840	11.2	-32,949,301	12.1	-127	260,350	99.4
50,000 to 60,000	200,465	8.7	-28,854,233	10.6	-144	201,340	99.6
60,000 to 70,000	161,196	7.0	-23,965,809	8.8	-149	161,740	99.7
70,000 to 80,000	126,579	5.5	-19,457,098	7.2	-154	126,930	99.7
80,000 to 90,000	108,139	4.7	-17,071,509	6.3	-158	108,430	99.7
90,000 to 100,000	93,310	4.0	-15,051,277	5.5	-161	93,510	99.8
100,000 to 125,000	177,922	7.7	-29,347,914	10.8	-165	178,310	99.8
125,000 to 150,000	113,127	4.9	-18,940,331	7.0	-167	113,470	99.7
150,000 to 200,000	110,103	4.8	-18,490,395	6.8	-168	110,470	99.7
200,000 to 250,000	47,222	2.0	-7,918,892	2.9	-168	47,440	99.5
250,000 to 300,000	23,441	1.0	-3,913,627	1.4	-167	23,600	99.3
300,000 to 500,000	32,918	1.4	-5,455,108	2.0	-166	33,310	98.8
500,000 to 1,000,000	17,044	0.7	-2,801,123	1.0	-164	17,250	98.8
1,000,000 and over	8,245	0.4	-1,319,744	0.5	-160	8,430	97.8
Total	2,312,840	100.0%	-\$271,896,310	100.0%	-\$118	3,166,610	73.0%

- Under 2019 Wisconsin Act 9, an estimated 1,980,502 taxpayers, or 62.5% of all tax filers, in 2020 will receive a tax decrease. The decrease will total an estimated \$151.7 million and average \$77 per taxpayer.

- Under 2019 Wisconsin Act 10, an estimated 2,308,794 taxpayers, or 72.9% of all tax filers, will receive a tax decrease. The tax decrease will total an estimated \$120.5 million and average \$52 per taxpayer.

- Under the combined effects of Acts 9 and 10, an estimated 2,312,840 taxpayers, or 73.0% of all tax filers, will receive a tax decrease. The decrease will total an estimated \$271.9 million and average \$118 per taxpayer. Due to tax rate rounding, the two tax reduction components do not sum exactly to the combined total.

- Under the tax rates in effect prior to Acts 9 and 10, taxpayers with Wisconsin AGI below \$100,000 comprise 77.2% of the filers with a tax liability and bear 31.7% of the net tax. Under the combined tax rate reductions, they will comprise 77.1% of the taxpayers with a tax decrease, and they will receive 67.6% of the total decrease. Their tax decrease will average \$103.

- Under the tax rates in effect prior to Acts 9 and 10, taxpayers with Wisconsin AGI over \$100,000 comprise 22.8% of the filers with a tax liability and bear 68.3% of the net tax. Under the combined tax rate reductions, they will comprise 22.9% of the taxpayers with a tax decrease, and they will receive 32.4% of the total decrease. Their tax decrease will average \$166.

Based on a simulation of tax year 2020 by the Wisconsin Department of Revenue.