



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>

March 28, 2019

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Distributional Information on Proposed Individual Income Tax Modifications

This memorandum provides distributional information related to the Governor's proposed changes to the individual income tax in Assembly Bill 56 (AB 56) and Senate Bill 59 (SB 59), the 2019-21 biennial budget bills.

Among the bills' various provisions, the proposed family and individual reinvestment (FAIR) credit would reduce individual income tax collections by an estimated \$421.55 million in 2019-20 and \$412.05 million in 2020-21. Beginning in tax year 2019, the nonrefundable credit would equal a minimum dollar amount or a percentage of the claimant's net tax liability, subject to phaseout based on the claimant's Wisconsin adjusted gross income (AGI) and filing status. The credit would be equal to the greater of 10% of the claimant's net tax liability, defined as the claimant's income tax liability prior to the application of the nonrefundable credit for taxes paid to other states, or: (a) \$100 if the claimant's filing status is single or head-of-household and the claimant's AGI is less than \$80,000; (b) \$50 if the claimant's filing status is married joint and the combined AGI of the claimant and the claimant's spouse is less than \$125,000; and (c) \$25 if the claimant's filing status is married separate and the claimant's AGI is less than \$62,500. The 10% credit would phase down between \$80,000 and \$100,000 for single and head-of-household filers, \$125,000 and \$150,000 for married joint filers, and \$62,500 and \$75,000 for married separate filers, and the credit would phase out at the higher income thresholds for each filer type. The credit would not be available to part-year residents and nonresidents and to individuals who may be claimed as a dependent on a return of another taxpayer claiming the credit. The credit would be administered by the Department of Revenue (DOR). Attachment 1 reports the estimated distribution of tax credit recipients by Wisconsin AGI and by marital status for tax year 2020, based on a simulation of tax year 2020 by the Wisconsin DOR.

In addition to creating the family and individual reinvestment credit, AB 56/SB 69 contains a number of other modifications to the individual income tax. Attachment 2 provides a distributional analysis for a majority of the proposed modifications. In addition to the FAIR credit, the attachment includes the estimated effects of: (a) limiting the exclusion for nonfarm capital gains; (b) limiting

the amount of qualified production activities income from manufacturing activities that a claimant may use in calculating the manufacturing and agriculture credit (MAC); (c) increasing the credit rates under the state earned income tax credit (EITC) for claimants with one and two children; (d) indexing the formula factors and increasing the household income factor under the homestead tax credit; (e) reducing the marginal tax rate for the bottom tax bracket, rather than proportionally reducing all four marginal tax rates, to offset the additional sales and use tax collected from out-of-state retailers; (f) sunsetting the deduction for private school tuition expenses; (g) creating a nonrefundable child and dependent care tax credit and sunsetting the current law deduction for child and dependent care expenses; and (h) sunsetting the working families tax credit. The distributional analysis also incorporates the interactive effects associated with the preceding provisions.

The distributional analysis does not include the individual income tax effects of the following proposed modifications: (a) updating references to the Internal Revenue Code (IRC); (b) decreasing the limitation on the medical care insurance deduction for self-employed persons; (c) repealing the carryback allowance for net operating losses; (d) creating a deduction for first-time home buyer accounts; (e) excluding interest received on certain bonds and notes issued by the Wisconsin Health and Educational Facilities Authority; and (f) requiring low-income housing tax credits to be added to the taxable income of the person or entity claiming the credit. These provisions would have a combined effect of increasing individual income tax collections by an estimated \$124.7 million in 2019-20 and \$105.8 million in 2020-21. Most of this effect is due to the IRC update, which would result in individual income tax increases estimated at \$122.6 million in 2019-20 and \$115.1 million in 2020-21. DOR was unable to include these provisions in its simulation because the DOR database does not include elements that permit the provisions' simulation.

For the provisions included in Attachment 2, individual income tax collections are estimated to increase by \$71.0 million in 2019-20 and to decrease by \$64.2 million in 2020-21. Due to timing differences between the fiscal year and tax year, the fiscal effects for fiscal years and tax years are not the same. The tax year is a better portrayal of the ongoing effects of tax law changes, and Attachment 2 portrays the effects for tax year 2020 because some of the eight provisions listed above do not take effect until tax year 2020. For tax year 2020, Attachment 2 combines the fiscal effects of four provisions resulting in tax decreases and four provisions resulting in tax increases. The table also includes interactive effects which occur when some taxpayers are impacted both by provisions decreasing taxes and by provisions increasing taxes.

**Tax Year 2020 Fiscal Effects of Provisions Included in Attachment 2
(Millions)**

<u>Provisions Decreasing Taxes</u>	<u>Amount</u>
FAIR Credit	\$412.0
Credit Rates for 1 and 2-Child EITC Claimants	26.7
Homestead Tax Credit Formula Factors	38.9
Child and Dependent Care Tax Credit	10.0
Interactive Effects	<u>11.4</u>
Subtotal	\$499.0
<u>Provisions Increasing Taxes</u>	<u>Amount</u>
Exclusion for Nonfarm Capital Gains	\$220.7
Manufacturing Income Limit for MAC Claimants	182.0
Private School Tuition Deduction	12.2
Working Families Credit Sunset	0.1
Interactive Effects	<u>19.9</u>
Subtotal	\$434.9
Combined Effect	-\$64.1

The combined effects of these provisions would cause some taxpayers to experience tax decreases and other taxpayers to experience tax increases. Attachment 2 displays the effect for each type of taxpayer, as well as the combined effect. Taxpayers receiving a tax decrease (2,178,050) would exceed the number of taxpayers experiencing a tax increase (339,310) by a substantial margin. However, tax decreases totaling \$499.0 million would exceed tax increases totaling \$434.9 million, by only \$64.1 million. Consequently, a considerable difference would result between the size of the average tax decrease (\$229) and the average tax increase (\$1,282).

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Attachments

ATTACHMENT 1

**Estimated Distribution of Taxpayers Claiming the Family and Individual Reinvestment (FAIR) Credit Proposed in AB 59 and SB 69,
Tax Year 2020**

Wisconsin Adjusted Gross Income	All Filers Taxpayers Receiving the Proposed Tax Credit					Count of All Returns	% of All Returns in AGI Class	Married Joint Filers Taxpayers Receiving the Proposed Tax Credit					Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Credit	Percent of Credit	Average Credit			Count	Percent of Count	Amount of Tax Credit	Percent of Credit	Average Credit		
Under \$5,000	15,130	0.8%	\$734,500	0.2%	\$49	470,540	3.2%	80	< 0.1%	\$3,880	< 0.1%	\$49	84,220	0.1%
5,000 to 10,000	8,690	0.5	582,760	0.1	67	212,390	4.1	80	< 0.1	6,040	< 0.1	76	28,680	0.3
10,000 to 15,000	56,510	3.0	3,345,170	0.8	59	184,210	30.7	80	< 0.1	6,470	< 0.1	81	29,490	0.3
15,000 to 20,000	95,660	5.0	8,312,020	2.0	87	166,810	57.3	130	< 0.1	11,070	< 0.1	85	27,380	0.5
20,000 to 25,000	128,640	6.8	12,244,400	3.0	95	167,290	76.9	2,120	0.3	113,370	< 0.1	53	29,050	7.3
25,000 to 30,000	138,280	7.3	13,420,770	3.3	97	165,390	83.6	12,480	1.7	843,430	0.4	68	33,200	37.6
30,000 to 40,000	295,240	15.6	32,668,360	7.9	111	315,400	93.6	65,350	8.8	6,330,620	2.8	97	76,640	85.3
40,000 to 50,000	249,540	13.2	38,871,100	9.4	156	260,350	95.8	71,080	9.5	7,639,770	3.3	107	76,660	92.7
50,000 to 60,000	193,590	10.2	40,656,650	9.9	210	201,340	96.2	71,200	9.5	11,167,600	4.9	157	75,590	94.2
60,000 to 70,000	156,050	8.2	41,518,140	10.1	266	161,740	96.5	73,500	9.8	16,420,890	7.2	223	76,960	95.5
70,000 to 80,000	122,410	6.5	39,403,550	9.6	322	126,930	96.4	71,340	9.6	20,745,310	9.0	291	74,060	96.3
80,000 to 90,000	104,550	5.5	36,491,120	8.9	349	108,430	96.4	70,600	9.5	25,328,130	11.0	359	72,790	97.0
90,000 to 100,000	90,520	4.8	31,844,860	7.7	352	93,510	96.8	67,750	9.1	28,915,000	12.6	427	69,510	97.5
100,000 to 125,000	143,360	7.6	76,890,730	18.7	536	178,310	80.4	143,360	19.2	76,890,730	33.5	536	146,370	97.9
125,000 to 150,000	97,260	5.1	34,998,310	8.5	360	113,470	85.7	97,260	13.0	34,998,310	15.3	360	99,240	98.0
150,000 to 200,000	0	0.0	0	0.0	N.A.	110,470	0.0	0	0.0	0	0.0	N.A.	98,690	0.0
200,000 to 250,000	0	0.0	0	0.0	N.A.	47,440	0.0	0	0.0	0	0.0	N.A.	42,440	0.0
250,000 to 300,000	0	0.0	0	0.0	N.A.	23,600	0.0	0	0.0	0	0.0	N.A.	20,940	0.0
300,000 to 500,000	0	0.0	0	0.0	N.A.	33,310	0.0	0	0.0	0	0.0	N.A.	29,230	0.0
500,000 to 1,000,000	0	0.0	0	0.0	N.A.	17,250	0.0	0	0.0	0	0.0	N.A.	14,990	0.0
1,000,000 and over	0	0.0	0	0.0	N.A.	8,430	0.0	0	0.0	0	0.0	N.A.	7,030	0.0
Total	1,895,430	100.0%	\$411,982,440	100.0%	\$217	3,166,610	59.9%	746,410	100.0%	\$229,420,620	100.0%	\$307	1,213,160	61.5%

Wisconsin Adjusted Gross Income	Other Filers Taxpayers Receiving the Proposed Tax Credit					Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Credit	Percent of Credit	Average Credit		
Under \$5,000	15,050	1.3%	\$730,620	0.4%	\$49	386,320	3.9%
5,000 to 10,000	8,610	0.7	576,720	0.3	67	183,710	4.7
10,000 to 15,000	56,430	4.9	3,338,700	1.8	59	154,720	36.5
15,000 to 20,000	95,530	8.3	8,300,950	4.5	87	139,430	68.5
20,000 to 25,000	126,520	11.0	12,131,030	6.6	96	138,240	91.5
25,000 to 30,000	125,800	10.9	12,577,340	6.9	100	132,190	95.2
30,000 to 40,000	229,890	20.0	26,337,740	14.4	115	238,760	96.3
40,000 to 50,000	178,460	15.5	31,231,330	17.1	175	183,690	97.2
50,000 to 60,000	122,390	10.7	29,489,050	16.2	241	125,750	97.3
60,000 to 70,000	82,550	7.2	25,097,250	13.7	304	84,780	97.4
70,000 to 80,000	51,070	4.4	18,658,240	10.2	365	52,870	96.6
80,000 to 90,000	33,950	3.0	11,162,990	6.1	329	35,640	95.3
90,000 to 100,000	22,770	2.0	2,929,860	1.6	129	24,000	94.9
100,000 to 125,000	0	0.0	0	0.0	N.A.	31,940	0.0
125,000 to 150,000	0	0.0	0	0.0	N.A.	14,230	0.0
150,000 to 200,000	0	0.0	0	0.0	N.A.	11,780	0.0
200,000 to 250,000	0	0.0	0	0.0	N.A.	5,000	0.0
250,000 to 300,000	0	0.0	0	0.0	N.A.	2,660	0.0
300,000 to 500,000	0	0.0	0	0.0	N.A.	4,080	0.0
500,000 to 1,000,000	0	0.0	0	0.0	N.A.	2,260	0.0
1,000,000 and over	0	0.0	0	0.0	N.A.	1,400	0.0
Total	1,149,020	100.0%	\$182,561,820	100.0%	\$159	1,953,450	58.8%

- An estimated 1,895,430, or 59.9%, of all filers in 2020 would receive the family and individual reinvestment tax credit. A slightly higher percentage of married joint filers (61.5%) would receive the credit, than other filers (58.8%).

- The credit is estimated to decrease individual income tax collections by \$412.0 million in tax year 2020. Married joint filers would receive an estimated 55.7% of the decrease but represent only 39.4% of the total claimants. Other taxpayers would receive 44.3% of the estimated decrease but represent 60.6% of the estimated number of claimants.

- The average tax credit is estimated at \$217 in tax year 2020. The average credit is estimated to be higher for married joint claimants (\$307) than for other claimants (\$159).

- The average credit by Wisconsin AGI category would increase until reaching the phaseout range of \$125,000 to \$150,000 for married joint filers and \$80,000 to \$100,000 for single filers. Married separate filers are included with single filers and have a lower income phaseout range, but represent a small percentage of total filers (about 1%).

- Over 90% of all filers with a Wisconsin AGI between \$30,000 and \$100,000 would receive a tax credit. Tax filers not receiving the credit would include those with no tax liability, filers whose income is above the AGI phaseout threshold, part-year residents, nonresidents, and individuals claimed as a single dependent on the return of another taxpayer claiming the credit.

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

ATTACHMENT 2

Estimated Distribution of Taxpayers with a Tax Decrease or Increase Under Selected Individual Income Tax Provisions in AB 59 and SB 69, Tax Year 2020

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease					Count of All Returns	% of All Returns in AGI Class	Taxpayers with a Tax Increase					Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Decrease	Percent of Decrease	Average Decrease			Count	Percent of Count	Amount of Tax Increase	Percent of Increase	Average Increase		
Under \$5,000	120,470	5.5%	-\$12,913,270	2.6%	-\$107	470,550	25.6%	6,530	1.9%	\$5,144,700	1.2%	\$788	470,550	1.4%
5,000 to 10,000	52,070	2.4	-5,108,270	1.0	-98	212,390	24.5	5,200	1.5	204,720	0.0	39	212,390	2.4
10,000 to 15,000	108,600	5.0	-10,572,220	2.1	-97	184,220	59.0	3,950	1.2	207,060	0.0	52	184,220	2.1
15,000 to 20,000	128,470	5.9	-18,060,230	3.6	-141	166,800	77.0	3,010	0.9	287,320	0.1	95	166,800	1.8
20,000 to 25,000	144,870	6.7	-25,824,530	5.2	-178	167,290	86.6	2,730	0.8	237,390	0.1	87	167,290	1.6
25,000 to 30,000	149,040	6.8	-28,674,580	5.7	-192	165,390	90.1	2,430	0.7	280,530	0.1	115	165,390	1.5
30,000 to 40,000	306,200	14.1	-48,695,160	9.8	-159	315,400	97.1	4,680	1.4	546,630	0.1	117	315,400	1.5
40,000 to 50,000	254,200	11.7	-44,673,270	9.0	-176	260,350	97.6	4,390	1.3	589,020	0.1	134	260,350	1.7
50,000 to 60,000	196,170	9.0	-43,604,170	8.7	-222	201,330	97.4	4,120	1.2	661,810	0.2	161	201,330	2.0
60,000 to 70,000	157,270	7.2	-43,236,770	8.7	-275	161,740	97.2	3,870	1.1	686,920	0.2	177	161,740	2.4
70,000 to 80,000	122,440	5.6	-40,232,780	8.1	-329	126,930	96.5	4,020	1.2	907,790	0.2	226	126,930	3.2
80,000 to 90,000	103,710	4.8	-36,714,680	7.4	-354	108,430	95.6	4,450	1.3	1,195,700	0.3	269	108,430	4.1
90,000 to 100,000	88,300	4.1	-31,783,280	6.4	-360	93,510	94.4	4,980	1.5	1,528,120	0.4	307	93,510	5.3
100,000 to 125,000	142,340	6.5	-75,615,860	15.2	-531	178,310	79.8	35,750	10.5	4,948,980	1.1	138	178,310	20.0
125,000 to 150,000	90,860	4.2	-32,168,610	6.4	-354	113,480	80.1	22,480	6.6	5,996,170	1.4	267	113,480	19.8
150,000 to 200,000	9,020	0.4	-766,430	0.2	-85	110,470	8.2	101,250	29.8	15,940,810	3.7	157	110,470	91.7
200,000 to 250,000	2,490	0.1	-235,100	< 0.1	-94	47,440	5.2	44,860	13.2	12,122,900	2.8	270	47,440	94.6
250,000 to 300,000	930	< 0.1	-78,840	< 0.1	-85	23,600	3.9	22,610	6.7	9,632,790	2.2	426	23,600	95.8
300,000 to 500,000	600	< 0.1	-35,660	< 0.1	-59	33,320	1.8	32,460	9.6	26,352,500	6.1	812	33,320	97.4
500,000 to 1,000,000	0	N.A.	0	N.A.	N.A.	17,250	N.A.	17,160	5.1	38,538,510	8.9	2,246	17,250	99.5
1,000,000 and over	0	N.A.	0	N.A.	N.A.	8,430	N.A.	8,380	2.5	308,847,900	71.0	36,855	8,430	99.4
Total	2,178,050	100.00%	-\$498,993,710	100.00%	-\$229	3,166,610	68.8%	339,310	100.0%	\$434,858,270	100.0%	\$1,282	3,166,610	10.7%

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Change					Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Change	Percent of of Change	Average Change		
Under \$5,000	127,000	5.0%	-\$7,768,570	12.1%	-\$61	470,550	27.0%
5,000 to 10,000	57,270	2.3	-4,903,550	7.6	-86	212,390	27.0
10,000 to 15,000	112,550	4.5	-10,365,160	16.2	-92	184,220	61.1
15,000 to 20,000	131,480	5.2	-17,772,910	27.7	-135	166,800	78.8
20,000 to 25,000	147,600	5.9	-25,587,140	39.9	-173	167,290	88.2
25,000 to 30,000	151,470	6.0	-28,394,050	44.3	-187	165,390	91.6
30,000 to 40,000	310,880	12.3	-48,148,530	75.1	-155	315,400	98.6
40,000 to 50,000	258,590	10.3	-44,084,250	68.7	-170	260,350	99.3
50,000 to 60,000	200,290	8.0	-42,942,360	67.0	-214	201,330	99.5
60,000 to 70,000	161,140	6.4	-42,549,850	66.3	-264	161,740	99.6
70,000 to 80,000	126,460	5.0	-39,324,990	61.3	-311	126,930	99.6
80,000 to 90,000	108,160	4.3	-35,518,980	55.4	-328	108,430	99.8
90,000 to 100,000	93,280	3.7	-30,255,160	47.2	-324	93,510	99.8
100,000 to 125,000	178,090	7.1	-70,666,880	110.2	-397	178,310	99.9
125,000 to 150,000	113,340	4.5	-26,172,440	40.8	-231	113,480	99.9
150,000 to 200,000	110,270	4.4	15,174,380	-23.7	138	110,470	99.8
200,000 to 250,000	47,350	1.9	11,887,800	-18.5	251	47,440	99.8
250,000 to 300,000	23,540	0.9	9,553,950	-14.9	406	23,600	99.7
300,000 to 500,000	33,060	1.3	26,316,840	-41.0	796	33,320	99.2
500,000 to 1,000,000	17,160	0.7	38,538,510	-60.1	2,246	17,250	99.5
1,000,000 and over	8,380	0.3	308,847,900	-481.6	36,855	8,430	99.4
Total	2,517,360	100.0%	-\$64,135,440	100.0%	-\$25	3,166,610	79.5%

- An estimated 2,517,360, or 79.5%, of all filers in 2020 would experience a tax change, with an estimated 2,178,050, or 68.8%, of all filers experiencing a tax decrease and estimated 339,310, or 10.7%, of all filers experiencing a tax increase.

- The total tax change is estimated at \$64.1 million in 2020, with tax decreases of \$499.0 million exceeding tax increases of \$434.9 million. The average decrease is estimated at \$229, while the average increase is estimated at \$1,282. For taxpayers with a tax change, the average change is estimated at -\$25.

- Among taxpayers with a tax decrease, taxpayers with AGI below \$100,000 would comprise 88.7% of the taxpayers with a decrease and would receive 78.2% of the total decrease. Their average tax reduction would equal \$202. Among taxpayers with a tax increase, taxpayers with AGI over \$100,000 would comprise 84.0% of the taxpayers with an increase and would receive 97.1% of the total increase. Their average tax increase would equal \$1,482.

- Among taxpayers with a tax change, tax decreases would exceed tax increases for taxpayers with AGI of below \$150,000, and a net decrease of \$474.5 million is estimated. The average decrease would be \$208. Tax increases would exceed tax decreases for taxpayers with AGI above \$150,000, and a net increase of \$410.3 million is estimated. The average increase would be \$1,711.

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