March 25, 2021

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Distributional Information on Proposed Individual Income Tax Modifications in the Governor's 2021-23 Biennial Budget Bill

This memorandum provides distributional information related to the Governor's proposed changes to the individual income tax in Assembly Bill 68 (AB 68) and Senate Bill 111 (SB 111), the 2021-23 biennial budget bills.

The attachment provides a distributional analysis for several of the proposed modifications in AB 68/SB 111 for tax year 2021. 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) increasing the maximum income factor under the homestead tax credit; (e) creating a nonrefundable child and dependent care tax credit and sunsetting the current law deduction for child and dependent care expenses; and (f) limiting the deduction under current law for elementary and secondary private school tuition expenses based on a taxpayer's federal adjusted gross income (AGI). The distributional analysis also incorporates the interactive effects associated with the preceding provisions. Table 1 displays the fiscal effect of each of these provisions for tax year 2021.

For the provisions included in the attachment, individual income tax collections are estimated to increase on a fiscal year basis by $290.1 million in 2021-22 and $214.3 million in 2022-23. Due to timing differences between the state fiscal year and tax year, the fiscal effects for fiscal years and tax years are different. The tax year is a better portrayal of the ongoing effects of tax law changes. For tax year 2021, the attachment combines the fiscal effects of three provisions resulting in tax decreases and three provisions resulting in tax increases. The attachment also includes interactive effects, which occur when some taxpayers are impacted both by provisions decreasing taxes and by provisions increasing taxes.
The combined effects of these provisions would cause some taxpayers to experience tax decreases and other taxpayers to experience tax increases. The attachment displays the effect for each type of taxpayer, as well as the combined effect. As shown in the attachment, taxpayers receiving a tax decrease (519,210) would exceed the number of taxpayers experiencing a tax increase (36,760) in tax year 2021. However, tax increases of $341.9 million exceed tax decreases of $123.1 million. Consequently, a considerable difference would result between the average tax decrease (-$237) and the average tax increase ($9,300), among individuals experiencing a change in tax liability.

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) repealing the carryback allowance for net operating losses; (c) creating a deduction for first-time home buyer accounts; (d) creating a nonrefundable credit for flood insurance premiums; (e) expanding the veterans and surviving spouses property tax credit to renters; (f) creating a nonrefundable credit for family caregivers; (g) creating an exclusion for AmeriCorps educational awards; (h) creating an exclusion for certain active duty pay; or (i) expanding the low-income housing credit. On a fiscal year basis, the administration estimates these individual income tax provisions would result in a net increase to the general fund of $24.6 million in 2021-22, and a net decrease of $5.1 million in 2022-23. DOR was unable to include these provisions in its simulation because its taxpayer database does not contain certain necessary elements for such a simulation. Table 2 displays the fiscal effects of the provisions excluded from the distributional analysis for state fiscal year 2021-22. The distributional analysis also does not include the provision related to expanding the medical care insurance deduction for self-employed individuals or the provision automatically adopting federal provisions related to qualified tuition programs, as these tax law changes were enacted under 2021 Act 1.
## TABLE 2

**Individual Income Tax -- Fiscal Effects of Provisions Not Included in the Attachment, State Fiscal Year 2021-22 (Millions)**

<table>
<thead>
<tr>
<th>Provisions Decreasing Taxes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Flood Insurance Premiums Credit</td>
<td>-$0.8</td>
</tr>
<tr>
<td>First-time Homebuyer Deduction</td>
<td>Minimal</td>
</tr>
<tr>
<td>Veterans Property Tax Credit for Renters</td>
<td>-4.9</td>
</tr>
<tr>
<td>Family Caregiver Credit</td>
<td>-100.4</td>
</tr>
<tr>
<td>AmeriCorps Award Exclusion</td>
<td>-0.1</td>
</tr>
<tr>
<td>Active Duty Pay Exclusion</td>
<td>-0.4</td>
</tr>
<tr>
<td>Low-income Housing Credit Expansion</td>
<td>-1.1</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>-$107.7</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Provisions Increasing Taxes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Update IRC References</td>
<td>$130.3</td>
</tr>
<tr>
<td>Repeal Carryback Allowance</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$132.3</strong></td>
</tr>
</tbody>
</table>

| Combined Effect                                                  | $24.6 |

BL/DS/ml
Attachment
<table>
<thead>
<tr>
<th>Adjusted Gross Income</th>
<th>Count</th>
<th>Percent of All Returns in AGI Class</th>
<th>Amount of Tax Change</th>
<th>Average Change</th>
<th>Count</th>
<th>% of All Returns in AGI Class</th>
<th>Taxpayers with a Tax Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $5,000</td>
<td>101,400</td>
<td>19.29%</td>
<td>$-12,888,110</td>
<td>-10.47%</td>
<td>452,530</td>
<td>22.13%</td>
<td></td>
</tr>
<tr>
<td>5,000 to 10,000</td>
<td>34,190</td>
<td>6.59%</td>
<td>-8,024,100</td>
<td>-6.52%</td>
<td>238,780</td>
<td>15.35%</td>
<td></td>
</tr>
<tr>
<td>10,000 to 15,000</td>
<td>50,060</td>
<td>9.64%</td>
<td>-15,195,920</td>
<td>12.35%</td>
<td>189,920</td>
<td>26.36%</td>
<td></td>
</tr>
<tr>
<td>15,000 to 20,000</td>
<td>50,650</td>
<td>9.76%</td>
<td>-19,988,000</td>
<td>16.24%</td>
<td>173,570</td>
<td>29.18%</td>
<td></td>
</tr>
<tr>
<td>20,000 to 25,000</td>
<td>55,090</td>
<td>10.61%</td>
<td>-23,032,780</td>
<td>18.72%</td>
<td>175,870</td>
<td>31.32%</td>
<td></td>
</tr>
<tr>
<td>25,000 to 30,000</td>
<td>64,340</td>
<td>12.39%</td>
<td>-39,352,830</td>
<td>-15.70%</td>
<td>180,040</td>
<td>35.74%</td>
<td></td>
</tr>
<tr>
<td>30,000 to 40,000</td>
<td>58,120</td>
<td>11.19%</td>
<td>-43,338,510</td>
<td>11.64%</td>
<td>337,360</td>
<td>17.23%</td>
<td></td>
</tr>
<tr>
<td>40,000 to 50,000</td>
<td>23,920</td>
<td>4.61%</td>
<td>-3,077,960</td>
<td>2.50%</td>
<td>265,160</td>
<td>9.02%</td>
<td></td>
</tr>
<tr>
<td>50,000 to 70,000</td>
<td>6,940</td>
<td>1.34%</td>
<td>-18,090,100</td>
<td>-2.47%</td>
<td>109,060</td>
<td>10.98%</td>
<td></td>
</tr>
<tr>
<td>70,000 to 100,000</td>
<td>5,380</td>
<td>1.04%</td>
<td>-38,886,000</td>
<td>-32.72%</td>
<td>157,280</td>
<td>3.42%</td>
<td></td>
</tr>
<tr>
<td>100,000 to 150,000</td>
<td>6,250</td>
<td>1.20%</td>
<td>-46,030,000</td>
<td>-34.38%</td>
<td>125,480</td>
<td>4.98%</td>
<td></td>
</tr>
<tr>
<td>150,000 to 200,000</td>
<td>7,130</td>
<td>1.37%</td>
<td>-55,070,000</td>
<td>-45.47%</td>
<td>106,980</td>
<td>6.66%</td>
<td></td>
</tr>
<tr>
<td>200,000 to 250,000</td>
<td>7,510</td>
<td>1.45%</td>
<td>-61,130,000</td>
<td>-50.80%</td>
<td>92,800</td>
<td>8.09%</td>
<td></td>
</tr>
<tr>
<td>250,000 to 300,000</td>
<td>17,460</td>
<td>3.36%</td>
<td>-1,567,710</td>
<td>-1.27%</td>
<td>176,430</td>
<td>9.90%</td>
<td></td>
</tr>
<tr>
<td>300,000 to 500,000</td>
<td>11,980</td>
<td>2.31%</td>
<td>-1,205,250</td>
<td>-0.98%</td>
<td>109,060</td>
<td>10.98%</td>
<td></td>
</tr>
<tr>
<td>500,000 to 1,000,000</td>
<td>10,870</td>
<td>2.09%</td>
<td>-1,086,270</td>
<td>-0.88%</td>
<td>106,220</td>
<td>10.23%</td>
<td></td>
</tr>
<tr>
<td>1,000,000 and over</td>
<td>4,300</td>
<td>0.83%</td>
<td>-413,760</td>
<td>-0.34%</td>
<td>46,760</td>
<td>6.92%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>555,970</td>
<td>100.00%</td>
<td>-$123,070,870</td>
<td>-1.23%</td>
<td>3,194,050</td>
<td>17.41%</td>
<td></td>
</tr>
</tbody>
</table>

- An estimated 555,970 taxpayers, or 17.4% of all filers, would experience a tax change in tax year 2021 under AB 68/SB 111. Of these filers, it is estimated that 519,210 (16.3% of all filers) would experience a tax decrease, and 36,760 (1.2% of all filers) would experience a tax increase.

- The total tax change under the bill is estimated at $218.8 million, with tax increases of $341.9 million outweighing tax decreases of $123.1 million. For taxpayers with a tax increase, the average increase is estimated at $9,300, while filers with a tax decrease are estimated to experience an average reduction of $237. Overall, the average tax change for affected filers is estimated to be a $394 increase.

- Among taxpayers with a tax decrease, those with Wisconsin AGI of $40,000 or less are estimated to comprise 79.5% of filers with a decrease, and to receive 91.7% of the total tax reduction. Their average decrease is estimated at $273. Among filers with a tax increase, those with Wisconsin AGI of $1.0 million or more are estimated to comprise 14.7% of filers with a increase, and to experience 83.7% of the total increase. Their average tax increase is estimated at $52,804.

- Among taxpayers with a tax decrease, those with Wisconsin AGI of $40,000 or less are estimated to comprise 79.5% of filers with a decrease, and to receive 91.7% of the total tax reduction. Their average decrease is estimated at $273. Among filers with a tax increase, those with Wisconsin AGI of $1.0 million or more are estimated to comprise 14.7% of filers with a increase, and to experience 83.7% of the total increase. Their average tax increase is estimated at $52,804.

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