

# Individual Income Tax

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# Individual Income Tax

The state individual income tax is the major source of general fund tax revenue in Wisconsin. In fiscal year 2015-16, individual income tax collections totaled \$7.74 billion and comprised over 51% of state general fund tax revenue.

This paper is organized into five general sections. These sections include: (a) policy goals in structuring an income tax; (b) Wisconsin's income tax structure; (c) differences between 2016 state and federal tax structures; (d) historical tax collections information; and (e) distributional information for tax year 2015. Finally, an appendix is attached that summarizes the historical development of the Wisconsin individual income tax, including the recent changes made during the 2015-2016 legislative session.

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## Policy Goals in Structuring an Income Tax

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Several principles of tax policy warrant consideration in structuring an individual income tax. A brief summary of some major goals of tax policy is presented below.

**Equity.** The tax structure should provide equal treatment of equals and include only reasonable differences in the taxation of unequals. The principle of horizontal equity would indicate that taxpayers with the same amount of economic income should pay the same tax. Economic income may be adjusted to reflect distinctions for a lesser ability to pay taxes due to unusual medical expenses and casualty and theft losses or to recognize the higher subsistence costs of taxpayers with large families.

The principle of vertical equity attempts to

distinguish among taxpayers with different amounts of income. Under this principle, it is argued that taxpayers with larger incomes have a greater ability to pay taxes and should pay more tax. Various provisions within the tax system may be used to achieve vertical equity, including provisions to exempt from tax a certain amount of income through a low-income allowance, standard deduction, or tax credit, or to tax higher-income taxpayers at higher tax rates through a progressive tax rate and bracket structure.

**Efficiency.** The goal of efficiency in the tax structure is to generate tax revenue without creating tax incentives that could distort the allocation of resources, investment, consumption, or work effort in society. An efficient tax creates minimal incentives for taxpayers to either work more hours or choose more leisure time, to invest in certain activities in preference to others, or to save or consume based on tax considerations. Tax provisions that reduce work effort or favor one type of investment over another may eventually reduce the total output in the economy.

**Simplicity.** The goal of simplicity for tax policy is to provide a tax system where the burden and costs of administration and compliance by both the taxpayer and the government are minimal. The tax structure should be understandable to the taxpayer and convey certainty to the taxpayer regarding the collection of taxes and administrative rulings.

**Redistribution.** The tax system can be used to transfer resources from individuals to the government to meet the collective goals of society. The income tax, as a tax based on capacity to pay, can be utilized to channel tax relief to low-income taxpayers to relieve undue hardship.

**Economic Stabilization.** Individual income tax collections generally rise over time with economic growth and inflation. During periods of increasing inflation, the income tax automatically draws resources out of the economy through rising tax liabilities, which can reduce demand and help to stabilize prices. The growth in revenues from the income tax over time also provides additional flexibility for fiscal policy to respond to growth or to fluctuations in economic cycles by lowering taxes or by increasing government expenditures.

Various features of the state's individual income tax reflect these policy goals. By way of example, the state generally uses federal adjusted gross income as the starting point in determining state taxable income, to simplify taxpayer compliance. The tax rate and bracket structure and the sliding scale standard deduction introduce an element of progressivity into the income tax. Finally, tax credits and personal exemptions are used to adjust for the differing capacities of taxpayers to pay taxes.

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## Wisconsin's Income Tax Structure

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### Overview

There are several steps involved in calculating state income tax liability for tax year 2016. In brief, these steps are to: (a) determine Wisconsin adjusted gross income (AGI); (b) subtract the state's standard deduction and personal exemptions from AGI to find Wisconsin taxable income; (c) apply the state's tax rate and bracket schedule to taxable income to find the gross tax amount; (d) subtract applicable state tax credits from the gross tax amount to arrive at the tentative net tax; and (e) determine if the state alternative minimum tax applies and, if applicable, add the minimum tax amount to the tentative net tax to arrive at the net tax liability. Each of these

steps is summarized in the following sections of this paper. The sections also note differences in various tax treatments according to filing status. The federal and state tax systems both employ several categories of filing status, which are based on the taxpayer's marital status -- married filing jointly, single, head-of-household, and married filing separately.

### Wisconsin Adjusted Gross Income

The starting point to arrive at Wisconsin AGI is federal AGI, which is derived from federal gross income. Gross income is income from all sources, except those for which specific exclusions are provided. Examples of items included in gross income are: wages, salaries, and tips; interest and dividends; state or local tax refunds, credits, or offsets; alimony received; business income and losses; capital gains and losses; certain individual retirement account (IRA) distributions; pensions and annuities; rents, royalties, and partnership income; farm income and losses; unemployment benefits; and a portion of social security benefits.

Examples of items specifically excluded from gross income are: (a) transfer payments, such as veterans' benefits and cash public assistance; (b) gifts and inheritances; (c) qualified scholarships; (d) contributions by an employer to accident and health plans; (e) employer adoption and educational assistance programs; and (f) qualified distributions from Coverdell education savings accounts, health savings accounts (HSAs), and qualified tuition programs.

Once gross income is determined, federal law permits the following subtractions to arrive at federal AGI: up to \$250 of certain expenses incurred by eligible K-12 educators; contributions to a self-employed retirement plan; IRA contributions for taxpayers below certain income levels or not covered by a pension plan; qualified student loan interest; tuition, fees, and other higher educational expenses; qualifying health savings

account and medical savings account contributions; job-related moving expenses; one-half of the self-employment tax for social security and Medicare; health insurance for the self-employed; penalties on early withdrawals of savings; alimony paid; certain business expenses of military reservists, performing artists, and fee-basis government officials; and certain income from qualified domestic production activities.

At the time this paper was written, Wisconsin had updated its tax laws to generally conform to federal provisions enacted as of December 31, 2013, as well as select federal provisions enacted in 2014 and 2015. However, Wisconsin does not adhere to all provisions in the Internal Revenue Code (IRC), as state law enumerates a number of exclusions. To arrive at Wisconsin AGI, Wisconsin requires the following major modifications to federal AGI:

***Social Security Benefits.*** Since tax year 2008, social security benefits have been completely exempt from the state income tax. Prior to tax year 1994, up to 50% of social security benefits was taxed for higher-income taxpayers under both federal and state law. The federal taxation of social security was modified under the Revenue Reconciliation Act of 1993, which increased the maximum amount of taxable social security benefits from 50% to 85%, beginning in tax year 1994. However, the pre-1994 provision was retained for state tax purposes, and applied for social security benefits received through tax year 2007.

Under federal law, social security benefits are taxed under a two-tiered taxation scheme. The 1993 treatment continues to apply to single taxpayers with provisional income below \$34,000 and married-joint taxpayers with provisional income below \$44,000. Up to 50% of social security benefits is taxable for such taxpayers. Provisional income equals one-half of social security plus federal AGI, tax-exempt interest income, and amounts earned in a foreign country, U.S.

possession, or Puerto Rico that are excluded from gross income.

For taxpayers with provisional income above these thresholds, up to 85% of social security is taxable under federal law. The taxable portion of social security payments is the lesser of: (a) 85% of social security; or (b) the amount included under the 1993 law (not to exceed \$4,500 for single taxpayers or \$6,000 for married-joint taxpayers) plus 85% of the excess of provisional income over the applicable income threshold. Married taxpayers who file separate returns are taxed on the lesser of 85% of social security or 85% of provisional income.

***Federal/State Bond Interest.*** For federal tax purposes, interest from state and municipal bonds is exempt, and interest from U.S. obligations is taxable. Federal law requires states to exempt interest from U.S. government securities from state income taxes. In Wisconsin, interest from state and municipal obligations (including Wisconsin's) is generally taxable. Specific state exclusions are provided for interest from: (a) public housing authority or community development authority bonds issued by Wisconsin municipalities; (b) older Wisconsin Housing Finance Authority bonds; (c) Wisconsin municipal redevelopment authority bonds; (d) Wisconsin higher education bonds; (e) Wisconsin Housing and Economic Development Authority (WHEDA) bonds, issued on or after December 11, 2003, to fund multifamily affordable housing or elderly housing projects; (f) certain WHEDA bonds issued before January 29, 1987; (g) certain public housing agency bonds issued before January 29, 1987, by agencies in other states; (h) bonds issued by local exposition districts, local professional baseball park districts, local professional football stadium districts, and local cultural arts districts; (i) bonds issued by the governments of Puerto Rico, Guam, the Virgin Islands, or the Northern Mariana Islands, or, for bonds issued after October 16, 2004, the Government of American Samoa; (j) bonds or notes issued by the

Wisconsin Aerospace Authority; (k) bonds issued on or after October 27, 2007, by the Wisconsin Health and Educational Facilities Authority (WHEFA) to fund the acquisition of information technology hardware or software, (l) WHEDA bonds or notes issued to provide loans to a public affairs network (WisconsinEye); (m) WHEFA bonds or notes issued for the benefit of persons who are eligible to receive bonds or notes from another issuer for the same purpose as the bonds or notes issued for the person by WHEFA and the interest income from those bonds or notes would also be exempt; (n) certain conduit revenue bonds; and (o) bonds issued by the City of Milwaukee to assist the Wisconsin Center District.

***Deductions for Health Insurance.*** Under both federal and state laws, self-employed persons are entitled to deduct 100% of amounts paid for health insurance for themselves, their spouse, and their dependents (to the extent that such premiums do not exceed net earnings from self-employment).

Three additional deductions are allowed under the Wisconsin state income tax for health insurance premium payments. These deductions extend to payments by individuals: (a) who are employees not covered by employer-provided medical insurance; (b) who have no employer and no self-employment income; and (c) who have insurance through their employment but their employer does not pay the entire premium.

***Organ Donor Expenses.*** Under state law, medical expenses that are deductible as federal itemized deductions are generally allowable deductions for use in calculating the state's itemized deduction credit (described in this paper under "Tax Credits"). Federal law permits taxpayers who itemize deductions to deduct medical and dental expenses exceeding 10% of adjusted gross income (7.5% if age 65 or older). Such allowable deductions include out-of-pocket surgical, hospital, laboratory, and certain transportation and

lodging expenses of organ donors or possible organ donors. Meals and lost wages associated with organ donation are not included in calculating the credit.

Since tax year 2004, a Wisconsin resident may subtract up to \$10,000 from federal AGI when computing Wisconsin AGI if the taxpayer, the taxpayer's spouse, or the taxpayer's dependent, while living, donates one or more organs to another human being for organ transplantation. The subtraction is allowed only for unreimbursed travel expenses, lodging expenses, and lost wages related to the organ donation. A subtraction for such expenses may only be claimed once and must be claimed in the year in which the organ transplantation occurs. The taxpayer may also include allowable organ donation expenses in calculating the itemized deduction credit, as described above.

***Unemployment Benefits.*** In tax year 1986, a limited exclusion for unemployment compensation benefits was provided under federal and state law. This exclusion, which was repealed under federal law beginning with the 1987 tax year, is retained for state tax purposes.

Under the state exclusion, if the sum of the taxpayer's unemployment compensation benefits and AGI is less than or equal to a base amount, then the entire benefit amount is excluded from income. The base amount is \$12,000 for single taxpayers, \$18,000 for married couples filing joint returns, and zero for married couples filing separate returns when the couple lived together at some point during the year. The base amount for single taxpayers applies in the case of married taxpayers filing separate returns who lived separately for the entire year. If the amount of benefits plus AGI exceeds the base amount, then the amount of unemployment compensation benefits includible in gross income is the lesser of: (a) one-half of the excess of the taxpayer's AGI, including benefits, over the base amount; or (b) the amount of the unemployment compensation ben-

efits.

**Capital Gains Exclusion.** A capital gains exclusion is provided for 60% of the capital gain from the sale of farm assets and 30% of the capital gain from the sale of other assets, provided those assets are held more than one year or are acquired from a decedent. Prior to tax year 2009, a 60% exclusion was provided relative to all assets held more than one year. Gains from assets held one year or less are fully taxed. The amount of capital losses that may be used to offset ordinary income is limited to \$500 annually, with the remainder carried over to future years.

Exceptions for gains related to certain business assets are described in the following three sections. In addition, Wisconsin previously provided a special treatment for long-term capital gains resulting from the sale of small business stock. However, as of tax year 2014, this treatment is federalized where the gain from the sale of qualified small business stock held for more than five years qualifies for a 50% exclusion, although the exclusion is increased to 60% if the corporation issuing the stock is in an empowerment zone, to 75% if the stock was acquired between February 18, 2009, and September 27, 2010, and to 100% if the stock was acquired after September 28, 2010. The stock must have been issued after August 10, 1993, and acquired by the taxpayer at its original issue. The stock must meet certain other conditions related to the company's status as a domestic C corporation, level of gross assets (\$50 million or less), acquisition of its own stock, and compliance with the active business test. Finally, the amount of the exclusion is subject to certain limitations.

**Capitals Gains Exclusion on Business Assets Sold to Family Members.** A complete exclusion is provided for net long-term capital gains (a gain on assets held more than one year) realized on the sale of business assets and assets used in farming to an eligible family member. This provision took effect in tax year 1998. An eligible

family member includes a person who is related by blood, marriage, or adoption within the third degree of kinship, which includes children, grandchildren, great grandchildren, parents, grandparents, brothers, sisters, nephews, nieces, uncles, and aunts.

Besides individuals, this exclusion also applies to shares in a corporation or trust that meet the same standards that allow a corporation or trust to carry on farming operations in the state. These standards provide that the corporation or trust may not have more than 15 shareholders or beneficiaries (except that one family may count lineal ancestors and descendants, aunts, uncles, and first cousins as one shareholder), that there are no more than two classes of shares, and that all shareholders or beneficiaries are natural persons.

A family member who purchases an asset under this provision is required to retain ownership for at least two years. If the business assets or the assets used in farming are resold within two years, a penalty will be imposed equal to the amount of income tax that would have been imposed on the initial seller if the complete exclusion did not apply to the transaction, prorated according to the amount of time the assets were held.

**Capitals Gains Deferral for Gains Reinvested in a Qualified Wisconsin Business.** A deferral is provided for a long-term (asset held for more than one year) capital gain provided the claimant invests all of the proceeds in a qualified Wisconsin business within 180 days of the sale of the asset generating the gain and notifies the Department of Revenue (DOR) that the capital gain has been reinvested and, therefore, will not be declared on the claimant's income tax return. The gain is treated as a deferral, so the basis for the investment in the Wisconsin business is calculated by subtracting the initial gain from the investment. That is, the deferral would become taxable when the investment is sold. Upon appli-

cation by a business, DOR is required to register it as a qualified Wisconsin business, provided the business meets the following criteria in the year immediately preceding the application for certification: (a) the business must have at least two full-time employees and at least 50% of the business' payroll compensation must be paid by the business in Wisconsin; and (b) at least 50% of the value of real and tangible personal property owned or rented and used by the business must be located in Wisconsin. Businesses seeking registration must submit an application to DOR in each taxable year for which certification is desired. The deferral first applied in tax year 2011, but was modified, as reflected above, to apply as of tax year 2014.

***Capitals Gains Exclusion for Gains from the Sale of a Qualified Wisconsin Business.*** A complete exclusion is provided for a long-term capital gain from the sale of a qualified Wisconsin business, provided the investment was purchased after December 31, 2010, and held for at least five years. In order to qualify for the exclusion, a capital gain must meet the following requirements: (a) the gain is realized from the sale of any investment which is a qualified Wisconsin business in both the year it is purchased by the claimant and for at least two of the subsequent four years it is held by the claimant; (b) the asset generating the gain must have been held for at least five uninterrupted years; and (c) the gain must be a long-term gain under the IRC. "Qualified Wisconsin business" is defined the same as under the capital gains deferral that immediately precedes this description. This exclusion was enacted in 2011 Wisconsin Act 32 and first applies in tax year 2016. Qualifying gains may not include amounts that were gains deferred as a reinvestment in a qualified Wisconsin business (preceding provision) or in a qualified new business venture (a deferral created in 2009 and first effective in tax year 2011, but sunset after the 2013 tax year under Act 20).

The deferral and exclusion described above

were enacted in 2011 Wisconsin Act 32 and modified in 2013 Wisconsin Act 20. Previously, qualifying businesses were certified by the Wisconsin Economic Development Corporation (WEDC), but are now registered by DOR. Investments in businesses previously certified by WEDC (or its predecessor, the Department of Commerce) continue to qualify for the treatments, provided other conditions are met.

***Depreciation.*** The deduction for depreciation allows taxpayers to recover, over a period of years, the cost of capital assets used in a trade or business or for the production of income. There are a number of methods used to calculate depreciation under federal law, which depend on the type of property being depreciated and when it was first placed into service. The Modified Accelerated Cost Recovery System (MACRS) rules of depreciation apply to most tangible property placed in service after 1986. Under current federal and state law, tangible depreciable property is generally subject to MACRS.

Since the early 2000s, the federal government has enacted a number of first-year bonus depreciation deductions that were intended to encourage business investment and stimulate the national economy. In January of 2013, the American Taxpayer Relief Act of 2012 was signed by the President. The Act extended 50% bonus depreciation to 2013 for most types of property or to 2014 for certain property with longer production periods and aircraft. The basis of the property and the depreciation allowances in the year the property is placed in service and in later years are adjusted to reflect the additional first year depreciation reduction. Under the 2013 legislation, the federal bonus depreciation provisions were scheduled to expire in tax year 2014 for most types of property.

Due to the potential impact on state revenues, the Legislature chose not to conform to the federal bonus depreciation provisions from 2002 through 2013. Instead, the Legislature included

provisions in 2001 Wisconsin Act 109 that referenced state amortization and depreciation provisions to the federal IRC in effect on December 31, 2000. The Act 109 provision remained in effect until it was modified in 2013 Wisconsin Act 20.

Under 2013 Act 20, the treatment of depreciation was revised to be consistent with federal law in effect on January 1, 2014, for property placed into service on or after that date. For property placed into service before that date, the taxpayer must consolidate the difference between the federal tax basis in the property and the state tax basis into a single asset account that may be amortized over five years (tax years 2014 through 2018).

In December of 2014, the President signed the Tax Increase Prevention Act of 2014, which extended 50% bonus depreciation to 2014, or 2015 for certain aircraft and property with longer production periods. Under this legislation, the federal bonus depreciation deduction was scheduled to terminate for most property in tax year 2015 and for all property in 2016. On December 18, 2015, the Protecting Americans from Tax Hikes Act of 2015 took effect, which extended 50% bonus depreciation through calendar year 2017. The bonus depreciation rate is scheduled to be reduced to 40% for property placed in service in 2018, and 30% for property placed in service in 2019. For long production property and certain non-commercial aircraft, the bonus depreciation rate is scheduled to be reduced to 40% for property placed in service in 2019 and 30% in 2020. Because the state depreciation provisions refer to the IRC in effect on January 1, 2014, the 50% bonus depreciation provisions will not be available to state taxpayers unless legislation is enacted to adopt the federal extension. In addition, if the federal government were to enact new bonus depreciation provisions, or make other changes regarding depreciation, the Legislature would have to update the IRC reference in order to adopt the new provisions at the state level.

For more information on depreciation and on federal and state depreciation provisions, refer to the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income/Franchise Tax."

***Election to Expense Depreciable Assets.*** Under Section 179 of the IRC, a taxpayer may elect to treat all or a portion of the cost of qualifying property used in the active conduct of a trade or business, up to a limit, as a deductible business expense rather than as a capital expenditure. Such an expense or cost is deductible in the year in which the property is placed in service. The amount claimed as a deduction is referred to as a Section 179 expense allowance. In general, qualifying property is limited to tangible personal property.

Under the Protecting Americans from Tax Hikes Act of 2015, the federal Section 179 deduction is the cost of qualifying property, up to a maximum limit of \$500,000 in tax year 2015, and is adjusted annually for inflation (\$500,000 in 2016). The deduction for a claimant is subject to a total investment limit of \$2 million for property placed in service in tax year 2015. The investment limit is also adjusted for inflation (\$2.01 million in 2016). For investments made in excess of the total investment limit, any additional investment results in a dollar-for-dollar phase-out of the deduction. For example, if a taxpayer purchased \$2.11 million of eligible property under Section 179 in 2016, the maximum deduction that could be taken by the taxpayer would be \$400,000. In addition to the phase-out provisions for investments above the limit, the amount eligible to be expensed in a year may not exceed the taxable income of the taxpayer that is derived from the active conduct of a trade or business for that year. Any amount that is not allowed as a deduction because of the taxable income limitation may be carried forward to succeeding years and deducted, subject to the total investment and taxable income limits. For sport utility vehicles, the maximum cost that can be expensed under Section 179 is \$25,000 (any adjusted basis in ex-

cess of \$25,000 may be depreciated under MACRS).

The basis of the property is reduced by the amount of this deduction. The deduction is generally available to all corporate and individual taxpayers, but is not available to trusts or estates.

Pursuant to 2013 Wisconsin Act 20, state taxpayers are generally subject to current Section 179 IRC provisions. As a result, for tax year 2016, Wisconsin taxpayers may elect to deduct under state law up to \$500,000 of the cost of qualifying property rather than taking depreciation deductions over a specified recovery period in the same manner as permitted under federal law. Any amount that is not allowed as a deduction because of the taxable income limitation may be carried forward to succeeding years and deducted, subject to the total investment and taxable income limits. Any future federal law changes to the Section 179 deduction will automatically be adopted under state law.

Since 2003, the federal government temporarily increased the deduction limit and investment limit for Section 179 property in an effort to stimulate business investment. However, due to the potential revenue impacts, these temporary increases were not adopted in Wisconsin prior to 2014. Under 2013 Act 20, the Wisconsin Section 179 provisions were federalized beginning in tax year 2014. The Protecting Americans from Tax Hikes Act of 2015 made the higher temporary deduction and investment limits permanent, indexed the limits to inflation, and expanded the type of property eligible for immediate expensing to include certain air conditioning units and heating units.

**Disability Income.** State taxpayers who meet certain requirements may exclude from gross income up to \$100 of disability income per week, or \$5,200 per year. In order to qualify for the exclusion the taxpayer must satisfy several criteria, including: (a) be under the mandatory retirement

age set in the retirement program offered by the taxpayer's employer; (b) be under age 65; (c) have retired on disability and have been permanently and totally disabled at retirement; and (d) prior to 1984, did not choose to treat the disability income as a pension for tax purposes. The exclusion is reduced dollar-for-dollar for the amount the taxpayer's federal adjusted gross income is above \$15,000.

**Pension Benefits of Certain Public Employees.** All pension payments received by taxpayers who were members of, or retired from, certain public pension systems prior to 1964 may be excluded from taxation under state law. This exclusion applies to federal civilian or military retirement systems. In addition, benefits received under the following state and local retirement plans are eligible for this exclusion: (a) Milwaukee Public School Teachers' Annuity and Retirement Fund; (b) Wisconsin State Teachers' Retirement System; (c) Employers' Retirement System of the City of Milwaukee; (d) Milwaukee County Employees' Retirement System; (e) Sheriffs' Annuity and Benefit Fund of Milwaukee County; (f) Policemen's Annuity and Benefit Fund of Milwaukee; and (g) Firemen's Annuity and Benefit Fund of Milwaukee. Further, railroad retirement benefits are excluded from state taxation under federal law.

**Retirement Income.** Since tax year 2009, Wisconsin law has allowed an exclusion for retirement income of up to \$5,000 per person aged 65 or older. This treatment is limited to taxpayers with federal adjusted gross income of \$15,000 or less (\$30,000 or less for married-joint filers). The exclusion applies with respect to distributions from qualified retirement plans under the IRC, including distributions from all qualified pension, profit-sharing, and stock bonus plans under the IRC, and from deferred compensation plans offered by state and local governments and tax-exempt organizations under the IRC. The exclusion also applies to otherwise taxable distributions from IRAs, self-employed plans, tax-

sheltered annuities, and other qualified retirement plans.

**Military Pensions.** The state provides an income tax exclusion for all federal uniformed services retirement benefits, including benefits to survivors.

**Military Pay.** Wisconsin law conforms to a federal income tax exclusion for military pay earned while serving in a combat zone. In addition, Wisconsin law provides that a member of a reserve component of the armed forces that has been called into active federal service or special state service may deduct all income paid by the federal government for such service, whether or not the service occurs in a combat zone. This deduction applies in the case of the following: (a) members of the Wisconsin National Guard who have been mobilized for special state service by the federal government; and (b) members of the Wisconsin Reserves and National Guard who have been mobilized by the federal government to active duty. The deduction does not apply to pay received by reservists during regular weekend and two-week annual training sessions. A person who claims the deduction may not claim the state income tax credit for military income, which is described in this paper under "Tax Credits."

**Armed Forces Members Who Die While on Active Duty.** As of tax year 2013, Wisconsin provides an exclusion for income received by an individual who is on active duty in the U.S. armed forces, as defined under federal law, and who dies while on active duty if the individual's death occurred while he or she was serving in a combat zone or as a result of wounds, disease, or injury incurred while serving in a combat zone. The exclusion extends to income received by the individual in the year of death and in the year immediately preceding the year of death if the individual has not filed an income tax return for the year before the year of death.

**Disaster Relief Work.** Pursuant to 2015 Wisconsin Act 84, the state provides an income tax exclusion for income of a non-Wisconsin resident whose only work in the state is performing certain disaster relief work during a state of emergency declared by the Governor.

**Moving Expenses.** Under state law, job-related moving expenses may not be deducted for moves out of Wisconsin.

**Adoption Expenses.** State law allows a deduction for up to \$5,000 in adoption expenses. The deduction may be taken during the tax year that a final order of adoption has been entered by a Wisconsin court, for adoption expenses incurred in that tax year and the two prior tax years. Allowable expenses include adoption fees, court costs, and legal fees related to the adoption of a child for whom a final order of adoption is entered.

Beginning in tax year 1997, federal law provided an adoption expense credit equal to \$5,000 (\$6,000 for the adoption of a special needs child). The federal credit was increased to up to \$10,000 of qualified adoption expenses per child, effective with tax year 2002, and the credit is indexed annually for inflation. For tax year 2016, the maximum credit is \$13,460 and is phased out over a modified adjusted gross income range of \$201,920 to \$241,920. In the case of a special needs adoption, the maximum credit amount applies regardless of whether the taxpayer has qualified adoption expenses. Unused credits may be carried forward for five years. This credit is not available at the state level.

**Wisconsin Section 529 College Savings Programs.** The Department of Administration, through its State Capital Finance Office, manages two Section 529 college savings plans that meet federal standards for a qualified state tuition program: Edvest and Tomorrow's Scholar. Under both of the savings plans, any person aged 18 or over may open an account and the beneficiary

may be any person including the account owner. The program is advised by an 11-member College Savings Program Board, and began offering accounts in 2001.

From July, 1997, to December, 2002, investors could participate in a separate Section 529 plan, the college tuition and expenses program, also known as the tuition unit purchase program. While this program continues to be authorized by state statute, the State Treasurer discontinued it in December, 2002, barring any future enrollments or the sale of any new tuition units to current account holders. Current tuition unit account holders may continue to hold their tuition unit investments until maturity or may convert their account to any of the investment choices now offered under the state's college savings program.

Contributions to the Edvest and Tomorrow's Scholar program may be deducted for state tax purposes, but not for federal tax purposes. Prior to 2014, the state deduction was limited to contributions where the beneficiary was the claimant or the claimant's child, grandchild, great-grandchild, niece, or nephew. Since tax year 2014, claimants may deduct contributions to the account of any beneficiary, regardless of the claimant's relationship to the beneficiary. For 2016, each claimant's deduction is limited to no more than \$3,100 (filing single or joint) or \$1,550 (for a divorced parent or if married and filing separately) per beneficiary. Pursuant to Act 227, the maximum deduction is adjusted by the percent change in the consumer price index.

Pursuant to 2015 Wisconsin Act 55, beginning in tax year 2015, if an individual rolls over a 529 account from another state into a Wisconsin Edvest or Tomorrow's Scholar account, the principal amount contributed into the account may be deducted, but not the earnings in that account, subject to the annual deduction limits. If an individual rolls over a Wisconsin Edvest or Tomorrow's Scholar account into another state's 529 account, the individual must add back to their tax-

able income any amount that had been previously deducted from tax in Wisconsin.

Contributions in excess of the maximum may be carried forward and deducted in future years. Under Act 55, carryforwards are prohibited if the contribution is withdrawn from an account within one year of the contribution. If any amount is withdrawn from a qualified account and not used for qualified expenses, the amount that was previously deducted must be added back to the income of the claimant and the calculation for the amount that the claimant can carry forward must be reduced by that amount. If any amount that was previously deducted was withdrawn from a qualified account within one year of its contribution, that amount must also be added back to the income of the claimant.

Wisconsin has provided an income tax exemption for Wisconsin Section 529 earnings and qualified distributions since 1997. Under the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA), the federal government adopted a similar exemption for earnings and distributions for qualified higher education expenses from any qualified state tuition program. EGTRRA also provided that, effective with tax year 2004, the exemption for earnings and distributions is extended to earnings and distributions from qualified tuition programs offered by private institutions in addition to state-sponsored plans. These federal provisions also apply for state purposes.

The Legislative Fiscal Bureau provides more information on these programs in the informational paper entitled, "Student Financial Aid."

**Higher Education Tuition Expenses.** Since tax year 1998, state law has allowed a deduction from income for tuition expenses. The deduction applies to tuition and mandatory student fees paid on behalf of the taxpayer or the taxpayer's dependent. Allowable tuition expenses include tuition paid to attend any university, college, tech-

nical college, or a school approved by the Education Approval Board that is located in Wisconsin or to attend a public vocational school or public institution of higher education in Minnesota under the Minnesota-Wisconsin tuition reciprocity agreement.

For tax year 2016, the maximum deduction per eligible student per year is \$6,943. This exclusion may not be claimed if the source of the tuition payment is a withdrawal from a Wisconsin state-sponsored college savings program or college tuition and expenses program, such as EdVest, provided the contribution to the account was previously claimed as an exclusion to taxable income.

The maximum deduction is phased out in specified ranges of federal AGI that vary with filing status and are indexed for inflation. For tax year 2016, the phase-out ranges are: (a) \$52,600 to \$63,120 for single and head-of-household filers; (b) \$84,160 to \$105,200 for married couples filing joint returns; and (c) \$42,080 to \$52,600 for married couples filing separate returns.

A federal deduction for qualified higher education expenses is scheduled to expire after tax year 2016, pursuant to the Protecting Americans from Tax Hikes Act of 2015. The maximum federal deduction is set at \$4,000, but is limited based on the taxpayer's AGI (\$65,000, if single, and \$130,000 if joint). The deduction is reduced to \$2,000 for taxpayers with a higher AGI (up to \$80,000, if single, and \$160,000, if joint). Since Wisconsin has its own deduction, the federal deduction has not been adopted for state purposes.

***Private School Tuition Expenses.*** Beginning in tax year 2014, taxpayers may deduct amounts paid for tuition to a private school for state tax purposes. The deduction is limited to expenses of up to \$4,000 per year per pupil enrolled in kindergarten through grade eight and \$10,000 per year per pupil enrolled in grades nine through

twelve. The pupil must be a dependent of the claimant for federal income tax purposes and be enrolled in kindergarten or grades one through twelve of a private school, as defined in state law, that meets all the criteria for a private school.

***Long-Term Care Insurance.*** Premium costs paid by taxpayers for long-term care insurance for the taxpayer and his or her spouse are deductible from income for state tax purposes. This provision took effect in tax year 1998.

***Child and Dependent Care Expenses.*** Expenses related to child and dependent care are deductible from income for state tax purposes. The deduction equals up to \$3,000 for one qualified individual and up to \$6,000 for more than one qualified individual, for tax years 2014 and thereafter. The deduction was phased in over a four-year period starting in tax year 2011, and increased each year until reaching the 2014 amounts. The deduction is based on the expenses claimed for purposes of the federal child and dependent care credit and must be deducted for the same taxable year as the year to which the claim for the federal credit relates.

Federal law provides an individual income tax credit for child and dependent care expenses that are paid for the purpose of enabling a taxpayer to be gainfully employed. The maximum amount of expenses that can be claimed for the federal credit is \$3,000 if the claimant has one qualifying child or dependent and \$6,000 if the claimant has more than one qualifying child and/or dependent. The credit is calculated as a percentage of eligible expenses, with the percentage ranging from 35% to 20%, depending on the claimant's adjusted gross income.

Eligible claims for the federal credit must satisfy a number of tests, including a qualifying person test. Under the federal provisions, a qualifying person includes: (a) the claimant's qualifying child (which means that the child must have lived

with the claimant for more than half the year, among other requirements) who is the claimant's dependent and who was under the age of 13 when the care was provided; (b) the claimant's spouse who was physically or mentally not able to care for himself or herself and lived with the claimant for more than half the year; and (c) a person who was physically or mentally not able to care for himself or herself, lived with the claimant for more than half the year, and, with certain exceptions, was the claimant's dependent.

The following federal tests must also be met to claim the child and dependent care credit: (a) with an exception related to being a student, the individual claiming the credit (and the individual's spouse, if married) must have earned income during the year; (b) the child and dependent care expenses must be being paid so that the individual claiming the credit (and the individual's spouse, if married) can work or look for work; (c) the payments for the child and dependent care must be made to someone who cannot be claimed as a dependent of the individual claiming the credit or the individual's spouse; (d) in general, the claimant's filing status must be single, head-of-household, qualifying widow(er) with dependent child, or married filing jointly; and (e) the care provider must be identified on the claimant's tax return. In addition, if a claimant excludes or deducts dependent care benefits provided by a dependent care benefit plan, the total amount excluded or deducted under such a plan must be less than the dollar limit for qualifying expenses under the credit.

#### ***Grants for Doctors in Underserved Areas.***

Beginning in tax year 2014, physicians and psychiatrists may exclude income from the state's primary care and psychiatry shortage grant program. The program provides grants administered by the Higher Educational Aids Board to new graduates of a graduate medical education training program in Wisconsin who practice primary care medicine or psychiatry in underserved areas of Wisconsin.

***Qualified ABLE Accounts.*** Under federal law, a qualified Achieving a Better Life Experience (ABLE) program may be established by any state for the purpose of meeting the qualified disability expenses of a designated beneficiary, generally an individual whose blindness or disability occurred before age 26. In general, federal law permits up to \$14,000 of contributions (total from all contributors) in tax year 2016 to be deposited in an ABLE account per designated beneficiary per calendar year. The maximum annual contribution limit is indexed to adjustments made to the annual exclusion amount under the federal gift tax. Earnings generated from after-tax contributions into an ABLE account that are distributed and used for qualified expenses are not subject to tax, provided those distributions do not exceed qualified disability expenses of the designated beneficiary. Distributions made from an ABLE account that are not used for qualified disability expenses must be included as gross income of the recipient and are subject to a 10% penalty on the amount of the ineligible distribution.

Wisconsin adopted the federal tax treatment of ABLE accounts under 2015 Wisconsin Act 55. In addition, pursuant to 2015 Wisconsin Act 312, beginning in tax year 2016, an individual is eligible for a state deduction for any eligible contribution deposited by an account owner, or any other person, for the year in which a contribution is made into any state's federally qualified ABLE account. Wisconsin does not operate an ABLE program, but state residents can make contributions to programs operated by other states.

#### **Standard Deduction**

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 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.

**Table 1: Sliding Scale Standard Deduction for Tax Year 2016**

<b>Marital Status</b>	<b>Wisconsin AGI</b>	<b>Standard Deduction</b>
Single	Less than \$14,800	\$10,270
	\$14,800 to \$100,383	\$10,270-12.0% (WAGI-\$14,800)
	Greater than \$100,383	\$0
Married, Joint	Less than \$21,360	\$19,010
	\$21,360 to \$117,477	\$19,010-19.778% (WAGI-\$21,360)
	Greater than \$117,477	\$0
Married, Separate	Less than \$10,140	\$9,030
	\$10,140 to \$55,797	\$9,030-19.778% (WAGI-\$10,140)
	Greater than \$55,797	\$0
Head-of- Household	Less than \$14,800	\$13,260
	\$14,800 to \$43,236	\$13,260-22.515% (WAGI-\$14,800)
	Greater than \$43,236	Single Standard Deduction

As shown in Table 1, for 2016, a single taxpayer with Wisconsin AGI less than \$14,800 has a standard deduction of \$10,270; for single taxpayers with adjusted gross income in excess of \$100,383, no standard deduction is provided. Married taxpayers filing a joint return with AGI less than \$21,360 have a standard deduction of \$19,010; if their AGI is greater than \$117,477, no standard deduction is available. Married taxpayers filing separate returns have a standard deduction of \$9,030 if their AGI is less than \$10,140; if their AGI is greater than \$55,797, no standard deduction is provided. Head-of-household taxpayers with AGI of less than \$14,800 may claim a standard deduction of \$13,260; no deduction is allowed if income exceeds \$100,383.

Since tax year 1999, the dollar amounts used in the standard deduction have been indexed for annual changes in inflation, rounded to the nearest \$10. However, no indexing adjustment was made to the standard deduction in 2000 because it was increased statutorily. The statutory increase provided a larger standard deduction than would have resulted under indexing. Indexing adjustments resumed with tax year 2001. After a negative adjustment occurred for tax year 2010, a provision was included in 2009 Act 28 to limit future adjustments to no less than 0.0%. For tax

year 2016, pursuant to 2015 Wisconsin Act 55, the statutory standard deduction was adjusted to provide a larger deduction for married couples filing jointly and married individuals filing separately. For tax year 2016, the indexing adjustment is 0.2%. As a result of the change made under Act 55, married couples filing jointly and married individuals filing separately have a 3.0% adjustment for tax year 2016.

### **Personal Exemptions**

Personal exemptions are subtracted from Wisconsin AGI, along with the standard deduction, to arrive at taxable income. A \$700 personal exemption is provided for each taxpayer, the taxpayer's spouse, and for each individual claimed as a dependent.

An additional \$250 exemption is provided for each taxpayer who has reached the age of 65 before the end of the tax year (two exemptions are provided if both the taxpayer and the taxpayer's spouse are 65 at the end of the year). Thus, for each taxpayer age 65 or over, the total exemption is \$950.

### **Tax Rates and Brackets**

Wisconsin taxable income is multiplied by the

**Table 2: Tax Rates and Brackets for Tax Year 2016**

Filing Status	Taxable Income		Gross Tax is Amount Below, Plus Tax Rate Percent Listed Applied to Amount of Income in Excess of First Column	
	At Least	But Less Than		
Single, Head-of-Household	\$---	\$11,120	\$---	4.00%
	11,120	22,230	445	5.84
	22,230	244,750	1,094	6.27
	244,750	and over	15,046	7.65
Married, Joint	\$---	\$14,820	\$---	4.00%
	14,820	29,640	593	5.84
	29,640	326,330	1,458	6.27
	326,330	and over	20,061	7.65
Married, Separate	\$---	\$7,410	\$---	4.00%
	7,410	14,820	296	5.84
	14,820	163,170	729	6.27
	163,170	and over	10,031	7.65

applicable tax rates to arrive at gross tax liability. Currently, the state employs four tax brackets, with a separate rate assigned to each bracket. The tax rate structure is cumulative so that marginal tax rates apply only to income that falls within the corresponding bracket. For married taxpayers filing jointly in 2016, the first \$14,820 of taxable income is taxed at 4.00%, the next \$14,820 is taxed at 5.84%, the next \$296,690 is taxed at 6.27%, and taxable income in excess of \$326,330 is taxed at 7.65%.

Table 2 shows the tax rate and bracket schedules for tax year 2016. Prior to tax year 2013, the state employed five tax brackets, but 2013 Wisconsin Act 20 reduced the number of brackets and each of the corresponding rates. Subsequently, 2013 Wisconsin Act 145 provided a second reduction in the rate for income in the bottom tax bracket, effective for tax year 2014.

Since tax year 1999, the tax brackets have been indexed annually for changes in inflation. In the intervening years, the indexing adjustment was negative on one occasion (-1.5% for tax year 2010), but a 2009 Act 28 provision limits adjustments to no less than 0.0% for future years. For tax year 2016, the indexing adjustment is 0.2%.

### Tax Credits

Wisconsin provides a number of tax credits that may be subtracted from the gross tax liability. Unless noted, individual income tax credits are not refundable; thus, such credits can be used to reduce net tax liability to zero but the amount of the credit may not exceed tax liability.

**Married Couple Tax Credit.** In tax year 2016, two-earner families are eligible for a married couple credit equal to 3.0% of the earned income of the secondary wage earner, up to a maximum credit of \$480.

Earned income is defined as wages, salaries, tips, scholarships or fellowships, disability income treated as wages, other compensation, and net earnings from self-employment, reduced by certain amounts allowed as adjustments to gross income, such as qualified contributions to IRAs and self-employment retirement plans.

**Itemized Deduction Tax Credit.** If allowable itemized deductions exceed the sliding scale standard deduction, the excess amount is eligible for a tax credit of 5%. Allowable expenses for calculating the state credit generally conform to the expenses permitted as federal itemized deduc-

tions. These include: (a) charitable contributions; (b) medical and dental expenses exceeding 10% of adjusted gross income (7.5% if 65 or older); (c) interest expenses for a principal residence or a second home in Wisconsin; (d) interest expenses for property sold on a land contract; (e) other interest expenses, except personal interest; and (f) casualty losses that are directly related to a presidentially declared disaster. Federal law also permits certain deductions for state and local taxes, mortgage insurance premiums, other casualty and theft losses, and certain miscellaneous expenses. These federal deductions are not allowed for purposes of computing the state's itemized deduction tax credit. For federal tax purposes, some itemized deductions are limited for certain high-income taxpayers. These limitations apply for purposes of calculating the state credit.

**Property Tax/Rent Credit.** The property tax/rent credit (PTRC) is equal to 12% of property taxes, or rent constituting property taxes, paid on a principal residence up to a maximum of \$2,500 in property taxes for tax year 2000 and thereafter. The maximum credit is \$300. Rent constituting property taxes is defined as 25% of actual rent if payment for heat is not included in rent or 20% of actual rent if payment for heat is included in rent.

**Working Families Tax Credit.** Taxpayers with Wisconsin AGI below \$9,000 (\$18,000 if married-joint) may claim a credit equal to their net tax liability. The credit phases out over the next \$1,000 in income until eliminated when AGI exceeds \$10,000 (\$19,000 if married-joint). The credit eliminates state income taxes for single taxpayers with AGI below \$9,000 and married couples filing joint returns with AGI below \$18,000. The working families credit took effect in 1998. This credit is claimed by very few taxpayers because most individuals and families at these income levels do not have a net tax liability due to the standard deduction, personal exemptions, and other credits.

**Other State Tax Credit.** A credit for taxes

paid to other states is available to taxpayers who are Wisconsin residents and who paid tax on the same income both to Wisconsin and to another state, including the District of Columbia. The credit is equal to the amount of tax paid to the other state on the same income that is subject to Wisconsin taxation.

**Credit for Military Income.** Since tax year 2006, active duty members of the U.S. Armed Forces have been eligible for a credit of up to \$300 for income received as military pay for services performed while stationed outside of the U.S. (including tax exempt combat zone income). A married couple is eligible for a credit of up to \$600 if both spouses qualify. This credit may not be claimed by military reservists and National Guard members who claim an exemption for active duty pay received outside of a federal combat zone.

**Earned Income Tax Credit.** The earned income tax credit (EITC) is offered at both the federal and state levels as a means of providing assistance to lower-income workers. The state EITC is calculated as a percentage of the federal credit and the state uses federal definitions and eligibility requirements for purposes of the EITC, except that the state does not provide a credit to individuals without children. Both the federal and state credits are refundable. If the credit exceeds the amount of tax due, a check is issued for the difference. Table 3 reports the maximum credit amounts for tax year 2016 under the federal and state credits. More detailed information on the EITC can be found in the Legislative Fiscal Bureau's informational paper entitled, "Earned Income Tax Credit."

**Table 3: Maximum Federal and State Earned Income Tax Credit Amounts, 2016**

	No Children	One Child	Two Children	3 or More Children
Federal EITC	\$506	\$3,373	\$5,572	\$6,269
State EITC	N.A.	135	613	2,131

**Homestead Credit.** A refundable homestead credit may be claimed by taxpayers if certain income and property tax/rent requirements are fulfilled. The credit is limited to households with annual income of not more than \$24,680. The income measure used, called household income, includes income that is taxable for Wisconsin income tax purposes and most types of nontaxable cash income. The first \$1,460 of the property tax bill is considered in determining the amount of the credit for homeowners. For renters, 25% of rent, or 20% if heat is included, up to a maximum of \$1,460 annually is considered. The amount of credit is determined by a formula. Households with incomes below \$8,060 receive the maximum relief (80% of eligible property taxes). As income exceeds \$8,060, the credit is reduced. The maximum credit is \$1,168.

More detailed information on the homestead credit is presented in the Legislative Fiscal Bureau's informational paper entitled, "Homestead Tax Credit."

**Veterans Property Tax Credit.** Since tax year 2005, Wisconsin has provided a refundable credit against the individual income tax for property taxes paid by certain veterans and unremarried surviving spouses of veterans. Currently, the tax credit is equal to real and personal property taxes paid on a principal dwelling by an eligible veteran or by an eligible unremarried surviving spouse.

An eligible veteran is defined as a person who: (a) served on active duty in the U.S. armed forces; (b) was a resident of this state at the time of entry into that service or had been a Wisconsin resident for any consecutive five-year period after entry; (c) is a resident of the state for purposes of receiving veterans benefits; and (d) has a service-connected disability of 100% or a 100% disability rating based on individual employability.

An unremarried surviving spouse includes persons meeting any of four criteria relative to

the deceased spouse:

a. The spouse died while on active duty in the U.S. armed forces, was a Wisconsin resident at the time of entry into service or for any subsequent, consecutive five-year period, and was a Wisconsin resident at the time of death;

b. The spouse served on active duty in the U.S. armed forces, was a Wisconsin resident at the time of entry into active service or for any subsequent, consecutive five-year period, was a resident of this state at the time of death, and had a service-connected disability of 100% or a 100% disability rating based on individual employability;

c. The person served in the National Guard or U.S. armed forces reserves, was a Wisconsin resident at the time of entry into active service or for any subsequent, consecutive five-year period, and died in the line of duty while on active or inactive duty while a Wisconsin resident; or

d. The spouse served on active duty under honorable conditions in the U.S. armed forces, or in forces incorporated as part of the U.S. armed forces, was a Wisconsin resident at the time of entry into active service or had been a resident of Wisconsin for any consecutive five-year period after entry into that active duty service, was a Wisconsin resident at the time of death, and whose spouse began to receive, and continues to receive, federal dependency and indemnity compensation.

For married-joint filers, an eligible veteran may claim the credit for the entire property tax imposed on the veteran's principal dwelling, rather than for the share of property taxes that reflects the veteran's ownership interest in the dwelling (which is 50% for property owned as marital property). For a married couple filing separate returns, an eligible veteran and an eligible spouse are each permitted to claim the credit based on their respective ownership interest in the veteran's principal dwelling.

The veterans property tax credit is not allowed if an individual or the individual's spouse files a claim for the PTRC, the farmland preservation credit, or the homestead credit.

**State Historic Rehabilitation Credit.** A 25% income tax credit is available to natural persons for expenditures for the preservation or rehabilitation of eligible historic property. The maximum tax credit is \$10,000. The property must be an owner-occupied personal residence, and cannot be actively used in a trade or business or be held for the production of income or sale in the course of the taxpayer's trade or business. In order to qualify for the credit, rehabilitation expenses must exceed \$10,000 and the taxpayer cannot claim the state supplement to the federal historic rehabilitation credit for those expenses (see "Business Tax Credits"). If any portion of the credit exceeds a taxpayer's income tax liability in that year, the unused credit amount can be carried forward and used in the following 15 taxable years. The taxpayer must repay all or a portion of the credit if the property is sold or its historic features altered within five years.

**Repayment Credit.** A refundable credit is provided if a taxpayer must repay income on which taxes were paid in the prior tax year. The credit may be claimed if the income repaid is greater than \$3,000 and the repayment amount is not subtracted from AGI or used in calculating the itemized deduction tax credit.

**Angel Investment Tax Credit.** The angel investment tax credit equals 25% of the claimant's bona fide angel investment made directly in a qualified new business venture (QNBV) for the tax year. With the early stage seed investment tax credit, the angel investment tax credit is administered jointly by DOR and WEDC.

The aggregate amount of investment in any one QNBV that may qualify for angel investment or early stage seed investment tax credits is \$8.0 million. Investments in a QNBV must be maintained in the business by an angel investor, angel

investment network, or certified fund manager for at least three years.

WEDC certifies fund managers and businesses to participate in the program, and, in order to receive tax credits based on eligible investments, angel investors, angel investor networks, and venture capital funds must follow a verification process administered by WEDC. The maximum aggregate amount of angel and early stage seed investment tax credits that WEDC can verify to be claimed per calendar year is \$30 million.

Additional information on the angel investment tax credit and the early stage seed investment credit is included in the Legislative Fiscal Bureau's informational paper entitled, "Business Tax Credits."

**Business Tax Credits.** There are a number of business tax credits that are provided under both the state individual income tax and the state corporate income/franchise tax. These credits are described in the Legislative Fiscal Bureau informational paper entitled, "Business Tax Credits" but are listed below.

**Nonrefundable Credits**

- Community Rehabilitation Program
- Development Opportunity Zones
- Early Stage Seed Investment
- Insurance Security Fund Assessment
- Manufacturing and Agriculture
- Manufacturing Investment
- Research
- Supplement to the Federal Historic Rehabilitation

**Refundable Credits**

- Business Development
- Enterprise Zone
- Farmland Preservation

**Reckless and Fraudulent Claims.** Beginning in tax year 2013, a person who files a fraudulent claim for a refundable tax credit cannot claim a credit for ten successive tax years and a person who files a reckless claim cannot claim a refundable credit for two successive tax years. For tax year 2016, refundable credits available under

the individual income tax are: (a) earned income; (b) homestead; (c) veterans property; (d) repayment; (e) farmland preservation; (f) enterprise zone; and (g) business development. A "fraudulent claim" is a claim that is false or excessive and filed with fraudulent intent. A "reckless claim" is a claim that is improper due to reckless or intentional disregard of the provisions related to the credit in state statutes, rules, and regulations. DOR has the authority to determine what is fraudulent or reckless. In 2015-16, 243 claims for \$351,424 were found to be reckless and one claim for \$2,816 was found to be fraudulent.

Since the Act 20 provision took effect, DOR has determined that 384 claims were reckless and six claims were fraudulent from 2013-14 through 2015-16 and were comprised of: (a) 347 earned income; (b) 42 homestead; and (c) one veterans property tax credit.

### **Minimum Tax**

The alternative minimum tax is a component of both the federal and state individual income tax systems. The AMT is a means to ensure that at least a minimum amount of income tax is paid by individuals who have a large tax savings from the use of certain tax deductions and exemptions. A taxpayer's AMT is calculated by first determining alternative minimum taxable income (AMTI), subtracting any allowable exemption, and applying the AMT rate. The base for computing AMTI is regular taxable income, to which adjustments and tax preference items are added (or recaptured). An exemption is provided to taxpayers with an AMTI below specified amounts. The exemptions vary by filing status and phase out as income rises. Finally, the taxpayer's AMT liability is compared to the taxpayer's regular tax liability. If the AMT liability exceeds the regular tax amount, an AMT is owed equal to the difference. For state tax purposes, some tax credits are applied to the regular tax, before AMT liability is calculated, while other credits are applied after the AMT liability is calculated to the combined amounts of regular tax and AMT. For federal tax

purposes, all credits are applied as offsets both to regular tax and AMT.

Wisconsin AMTI is based on federal AMTI, which uses federal adjusted gross income minus itemized deductions as its starting point. Federal AGI is calculated by subtracting or excluding certain types of income and expenses from regular income. Some of these items, known as tax preference items, are subject to the federal AMT and must be added back to federal AGI when calculating federal AMTI. For federal tax purposes, there are two general types of tax preference items. Some are related to itemized deductions claimed on Schedule A and others are related to the tax-advantaged treatment of certain types of investment income and business expenses.

As noted above, Wisconsin AMTI equals federal AMTI with certain adjustments. Wisconsin adjustments reflect differences between the IRC and Wisconsin statutes. The Wisconsin adjustments to federal AMTI do not reflect differences regarding which items should be added back as tax preference items. Instead, the Wisconsin adjustments reflect differences in the definition of AGI.

Both for federal and state purposes, exemptions reduce the amount of AMTI subject to the AMT. In tax year 2000, federal exemption amounts were set at \$45,000 for married-joint filers, \$33,750 for single filers, and \$22,500 for married taxpayers filing separate returns. The exemption amounts were increased several times on a temporary basis between 2001 and 2011. The American Taxpayer Relief Act of 2012 set the exemption amounts for tax year 2012 at \$78,750 for married-joint filers, \$50,600 for single filers, and \$39,375 for married taxpayers filing separate returns and provided an inflation adjustment to these amounts for future tax years. Under indexing, the tax year 2016 exemption amounts have increased to \$83,800 for married-joint filers, \$53,900 for single filers, and \$41,900

for married taxpayers filing separate returns. These amounts phase out at a rate of 25% of each dollar of AMTI in excess of \$159,700 for married-joint filers, \$119,700 for single filers, and \$79,850 for married taxpayers filing separate returns.

For tax year 2016, Wisconsin has not adopted the federal increases to the AMTI exemption amounts. Instead, Wisconsin's exemption amounts are set equal to the federal exemption amounts in effect in tax year 2000 -- \$45,000 for married-joint filers, \$33,750 for single filers, and \$22,500 for married taxpayers filing separate returns. The exemption phases out for taxpayers with AMTI between \$150,000 and \$300,000 if filing married-joint, \$112,500 and \$247,500 if filing single, and \$75,000 and \$165,000 if filing married-separate. Pursuant to 2015 Wisconsin Act 55, state law adopts the federal AMT exemptions beginning in tax year 2017.

For federal tax purposes, a two-tiered minimum tax is calculated. A minimum tax rate of 28% is imposed on AMTI that exceeds the exemption amount by more than \$186,300 (\$93,150 for married taxpayers filing separate returns), and, a rate of 26% applies to any AMTI below that threshold. After applying the exemptions, Wisconsin taxes state AMTI at a flat rate of 6.5%. If the resulting tax exceeds the amount of regular tax, the difference is added to the regular tax liability. Regular tax is calculated by applying the rate and bracket structure against taxable income and subtracting certain tax credits. Except for the married couple credit and the state historic rehabilitation credit, taxpayers claim the non-business tax credits that are not refundable before the calculation of the minimum tax. All nonrefundable business tax credits available in 2016, except for the community rehabilitation credit, as well as all of the refundable credits, are claimed after the calculation of the AMT.

## **Summary of Features of the Individual Income Tax**

The major features in the calculation of federal and Wisconsin individual income taxes for 2016 are illustrated in Chart 1. Chart 1 shows the steps necessary to determine tax liability under federal and state law including the following major components: adjusted gross income, deductions, exemptions, tax rates and brackets, tax credits, and the alternative minimum tax.

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### **Differences Between State and Federal Income Tax Structures**

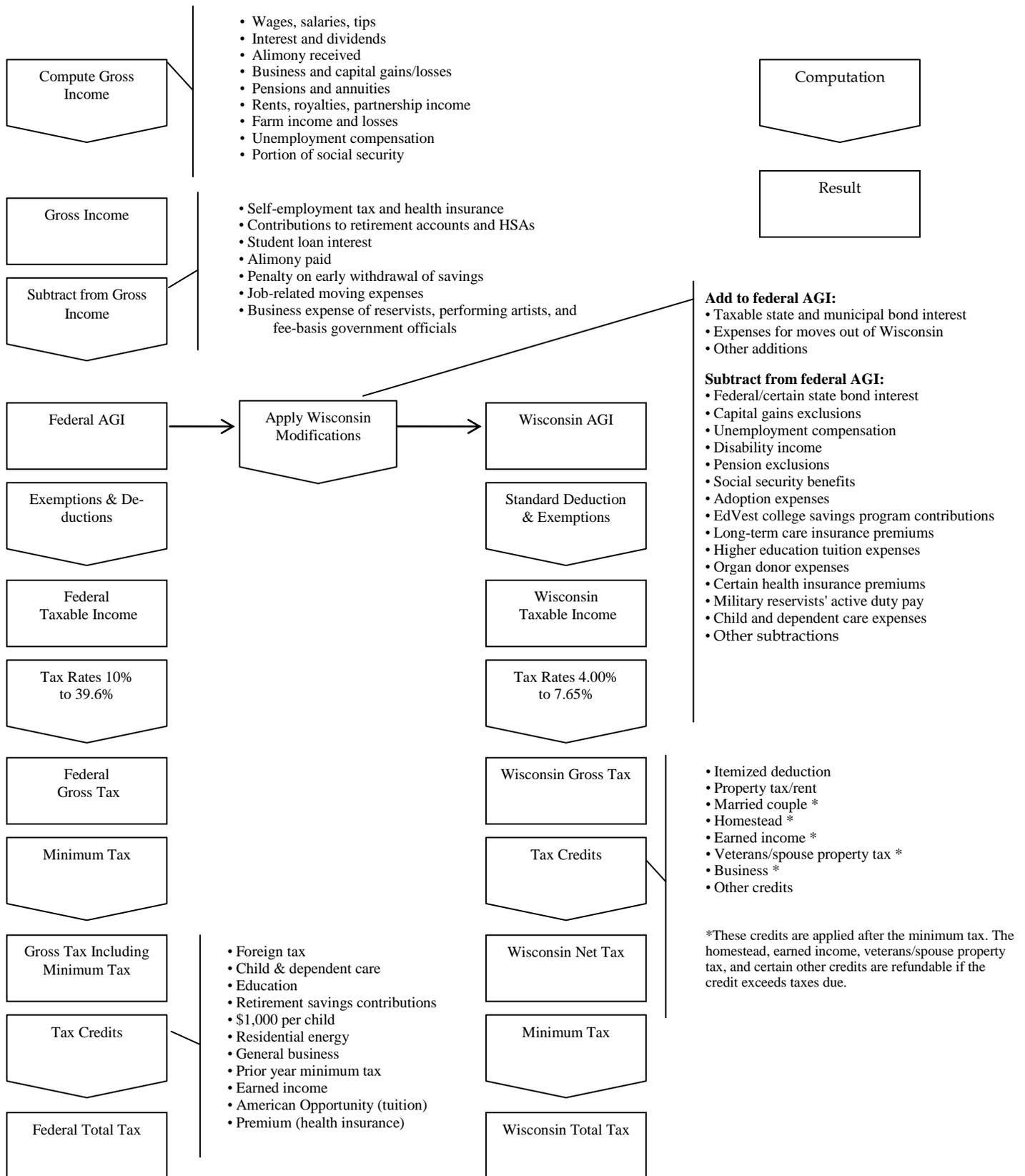
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The federal income tax structure differs from Wisconsin's tax structure in several ways. The major differences in the definition of AGI have been described previously. This section highlights additional areas of difference between federal and state income taxes.

The treatment of itemized deductions varies significantly between the two systems. Federal law permits the deduction of payments of property taxes and either state and local income taxes or general sales taxes as itemized deductions. In comparison, Wisconsin does not provide a deduction or credit for state and local income or general sales taxes. In addition, rather than a deduction for property taxes, Wisconsin provides a property tax/rent credit for residential property taxes or rent constituting property taxes paid on a principal residence. Federal law allows other itemized deductions such as interest expenses, charitable contributions, and medical and dental expenses. As described earlier, with certain exceptions, the state includes these items as part of the 5% itemized deduction credit. However, the state's credit is not provided for miscellaneous deductions or most casualty and theft losses, which are allowed under federal law.

# CHART 1

## Major Components in the Calculation of Federal and Wisconsin Income Taxes Tax Year 2016



For certain high-income filers, federal itemized deductions are limited. In 2016, if federal AGI exceeds \$311,300 if filing married-joint, \$285,350 if filing head-of-household, \$259,400 if filing single, or \$155,650 if filing married-separate, itemized deductions are reduced by the lesser of 3% of AGI over the income thresholds or 80% of the amounts otherwise allowable. Wisconsin has adopted this limitation for purposes of calculating the itemized deduction credit.

In place of the flat standard deduction amounts of \$6,300 for single taxpayers, \$12,600 for married couples filing jointly, \$6,300 for married-separate filers, and \$9,300 for head-of-household filers under federal law in 2016, a sliding scale standard deduction is used under state law. The maximum state deduction is set at \$10,270 for single taxpayers, \$19,010 for married couples filing jointly, \$9,030 for married-separate filers, and \$13,260 for head-of-household filers, and phases out for higher-income taxpayers (for more information on the state standard deduction, refer to Table 1).

Although no adjustment based on sight or age is made to the state's sliding scale standard deduction, an adjustment for persons age 65 or over is part of the state personal exemption. Wisconsin's personal exemption is \$700 for each taxpayer, spouse, and dependent, plus an additional \$250 for persons age 65 or over. In 2016, the federal personal exemption is \$4,050 for each taxpayer, spouse, and dependent. Unlike the state treatment, the federal personal exemption is indexed for inflation and phases out for high-income taxpayers. The exemption phases out between \$311,300 and \$433,800 for married-joint filers, \$259,400 and \$381,900 for single filers, \$285,350 and \$407,850 for head-of-household filers, and \$155,650 and \$216,900 for married taxpayers filing separate returns. Federal and state laws provide personal exemptions to account for differences in family sizes between taxpayers.

Under federal law, separate tax bracket schedules are used to differentiate the tax liabilities of single persons, married persons filing jointly, married persons filing separately, and heads of households. Wisconsin law, however, does not provide a separate tax bracket schedule for head-of-household filers.

For tax year 2016, federal marginal tax rates are 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%, and Wisconsin's marginal tax rates are 4.00%, 5.84%, 6.27%, and 7.65%. However, Wisconsin's effective top marginal tax rate may exceed 7.65% for taxpayers in the phase-out range of the state's sliding scale standard deduction.

At the federal level, net capital gains are generally taxable regardless of how long the assets were held. However, certain maximum tax rates apply to adjusted net capital gains, defined as the net long-term capital gain in a year offset by any short-term capital loss for that year. For taxpayers whose income exceeds the threshold for the 39.6% tax rate, adjusted net capital gains are taxed at a rate of 20%. If the adjusted net capital gains would otherwise be subject to a marginal tax rate greater than 15% but less than 39.6%, a tax rate of 15% applies. In the case of taxpayers in the 10% and 15% federal tax brackets, the maximum tax rate is 0%. In tax year 2016, the income thresholds for the 39.6% tax bracket are \$466,950 for married-joint filers, \$415,050 for single filers, \$441,000 for head-of-household filers, and \$233,475 for married taxpayers filing separately. The 15% tax bracket does not apply to income over \$75,300 for married-joint filers, \$37,650 for single filers, \$50,400 for head-of-household filers, and \$37,650 for married taxpayers filing separate returns.

Under both rate structures, higher maximum tax rates apply to gains from certain types of assets, such as coins, art, antiques, and other collectibles (28%) and qualified small business stock (28%, although 50% or more of the gain is

excluded from the taxpayer's gross income, depending on when the stock was acquired).

Under federal law, ordinary dividends received from corporations are included in gross income. However, qualified dividends received are taxed under capital gains tax rates if the investor holds the stock from which the dividend is paid for more than 60 days in the 121-day period beginning 60 days before the date following the date on which the corporation finalizes the list of shareholders who will receive the dividend. Dividends paid by certain financial institutions are not eligible for the lower tax rate. Wisconsin does not provide a lower maximum tax rate for capital gains or dividends. However, state law does provide an income tax exclusion for 60% of net capital gains on farm assets and 30% of net capital gains on other assets, if the assets have been held for more than one year. In addition, gains realized on the sale of a business to a family member and long-term gains reinvested in qualified Wisconsin businesses may be deferred or excluded from taxation.

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### Historical Tax Collections Information

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The annual amount of individual income taxes collected since 2005-06, the percentage change from year to year, and the share that individual income taxes comprised of state general fund tax revenues are shown in Table 4. Over the 11-year period, individual income tax revenues fell in three years, in 2008-09, 2009-10, and 2013-14. A national economic downturn beginning at the end of 2007 was the primary cause of the decreases in 2008-09 and 2009-10. The decrease in 2013-14 is attributable chiefly to tax reductions enacted as part of 2013 Wisconsin Act 20 and some effects from withholding table changes implemented in April, 2014. Modest growth of 3.7% in 2014-15 reflects the continued effects from withholding

**Table 4: Individual Income Tax Collections (\$ in Millions)**

Fiscal Year	Individual Income Tax	% Change	Percent of State General Fund Tax Collections
2005-06	\$6,144.3	8.7%	51.1%
2006-07	6,573.8	7.0	52.1
2007-08	6,713.7	2.1	51.5
2008-09	6,222.7	-7.3	51.4
2009-10	6,089.2	-2.1	50.2
2010-11	6,700.7	10.0	51.9
2011-12	7,041.7	5.1	52.1
2012-13	7,496.9	6.5	53.2
2013-14	7,061.4	-5.8	50.6
2014-15	7,325.8	3.7	50.4
2015-16	7,740.8	5.7	51.3

table changes and a reduction to the bottom income tax rate included in 2013 Wisconsin Act 145. In the three years before the economic downturn, income tax revenue increases ranged between 2.1% (2007-08) and 8.7% (2005-06). The increases between 2005-06 and 2007-08 were largely the result of economic factors, rather than tax law changes. After the end of the 2007-2009 recession, collections increased 10.0% in 2010-11, in part due to tax increases included in 2009 Wisconsin Act 28. As the economic recovery continued, increases of 5.1% in 2011-12 and 6.5% in 2012-13 are more comparable to the rates of increase before 2008-09, as was the 2015-16 increase of 5.7% following the effects of the rate reduction and withholding table changes.

Individual income tax collections comprised more than half of total general fund tax collections throughout this period, ranging from 50.2% in 2009-10 to 53.2% in 2012-13.

In 2016, 43 states and the District of Columbia had an individual income tax. For information on individual income taxes in other states, please refer to the Legislative Fiscal Bureau's informational paper entitled, "Individual Income Tax Provisions in the States."

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## Distributional Information for Tax Year 2015

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Aggregate data from individual income tax returns filed for tax year 2015 are shown in Tables 5 through 10. Table 5 presents summary statistics on the count of returns and taxfilers, the income, deductions, and tax credits claimed, and the amount of tax paid. The aggregate data shown in these tables differs from the collections data in Table 4, because it reflects activity in tax year 2015, rather than for the state's fiscal year 2015-16.

The distribution of taxfilers by adjusted gross income class is shown in Table 6. For tax year 2015, 3.0 million taxfilers reported \$163.1 billion in Wisconsin AGI. Of these taxfilers, approximately 2.1 million had a state individual income tax liability totaling \$7.10 billion. The average tax liability was \$3,312.

Table 7 presents information on the distribution by adjusted gross income class of gross tax liability, used credit amounts, the minimum tax, and the net tax liability (including the minimum tax). Gross tax liability of approximately \$8.48 billion was reduced by \$1,410.9 million of used tax credits. After adding back \$25.9 million in liability from the minimum tax, the net tax liability was \$7.10 billion.

The approximate distribution of selected used credits by type of credit is presented in Table 8. The used credit amounts are shown because these credits are nonrefundable (the amount of the tax

**Table 5: Aggregate Data on State Individual Income Tax Returns (Tax Year 2015)**

Count -- All Returns	3,033,473
Count -- Minimum Tax	33,623
Wis. Adj. Gross Income	\$163,144,380,934
Amount of Positive AGI	164,404,678,289
Used Deductions & Exemptions	22,764,542,524
Taxable Income	141,640,135,765
Gross Tax	8,481,369,462
Used Credits	1,410,909,869
Net Tax	7,070,459,593
Minimum Tax	25,875,690
Net Tax Including Minimum Tax	7,096,335,283
Avg Tax Rate (Net Tax/Tax. Inc.)	5.01%
Avg Eff Tax Rate (Net Tax/AGI)	4.35%

Source: 2015 Individual Income Tax Aggregate Data

credit may not exceed tax liability). The property tax/rent credit was the largest at \$408.0 million. Other tax credits shown in the table include: the itemized deduction credit at a cost of \$256.8 million; the married couple tax credit of \$263.5 million; and the credit for taxes paid to other states equaling \$301.2 million.

Table 9 identifies the distribution of minimum tax liability by adjusted gross income class. The \$25.9 million minimum tax in 2015 was paid by 33,623 taxpayers. The average minimum tax liability was \$770.

The distribution of taxpayers by filing status and amount of gross income is shown in Table 10. Based on the 2015 aggregate data, the distribution included 60.2% who were single taxpayers (including single dependents and heads-of-households), 39.0% who filed married-joint returns, and 0.8% filing married-separate returns.

**Table 6: Distribution of Wisconsin Adjusted Gross Income and Net Tax Liability by Adjusted Gross Income Class (Tax Year 2015)**

Total Adjusted Gross Income	Adjusted Gross Income					Net Tax Liability (Including Alternative Minimum Tax)				
	Count	% of Count	Amount	% of Total	Average Amount	Count	% of Count	Amount	% of Total	Average Amount
Under \$5,000	474,623	15.65%	-\$583,968,229	-0.36%	-\$1,230	43,865	2.05%	\$5,162,615	0.07%	\$118
5,000 - 10,000	246,097	8.11	1,824,389,196	1.12	7,413	30,020	1.40	7,220,664	0.10	241
10,000 - 15,000	203,053	6.69	2,527,886,028	1.55	12,449	85,874	4.01	13,026,760	0.18	152
15,000 - 20,000	190,359	6.28	3,325,568,298	2.04	17,470	129,278	6.03	31,467,467	0.44	243
20,000 - 25,000	181,503	5.98	4,083,009,394	2.50	22,496	150,284	7.01	60,710,354	0.86	404
25,000 - 30,000	174,427	5.75	4,793,056,757	2.94	27,479	159,312	7.44	98,819,508	1.39	620
30,000 - 40,000	304,930	10.05	10,617,960,810	6.51	34,821	296,904	13.86	296,523,157	4.18	999
40,000 - 60,000	414,032	13.65	20,351,480,595	12.47	49,154	409,161	19.10	740,235,384	10.43	1,809
60,000 - 80,000	271,421	8.95	18,835,528,155	11.55	69,396	269,330	12.57	788,600,905	11.11	2,928
80,000 - 100,000	187,974	6.20	16,801,230,507	10.30	89,381	186,942	8.73	766,201,631	10.80	4,099
100,000 - 150,000	230,839	7.61	27,714,284,876	16.99	120,059	229,401	10.71	1,350,164,837	19.03	5,886
150,000 - 200,000	71,785	2.37	12,248,770,025	7.51	170,631	71,002	3.31	628,131,670	8.85	8,847
Over 200,000	<u>82,430</u>	<u>2.72</u>	<u>40,605,184,522</u>	<u>24.89</u>	492,602	<u>80,964</u>	<u>3.78</u>	<u>2,310,070,331</u>	<u>32.55</u>	28,532
Total	3,033,473	100.00%	\$163,144,380,934	100.00%	\$53,781	2,142,337	100.00%	\$7,096,335,283	100.00%	\$3,312

**Table 7: Distribution of Wisconsin Gross Tax Liability, Used Credits, and Net Tax Liability by Adjusted Gross Income Class (Tax Year 2015)**

Total Adjusted Gross Income	Gross Tax Liability		Used Credit Amounts		Minimum Tax Liability		Net Tax Liability (Including Minimum Tax)	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Under \$5,000	\$3,888,211	0.05%	\$294,556	0.02%	\$1,568,960	6.06%	\$5,162,615	0.07%
5,000 - 10,000	7,349,877	0.09	554,726	0.04	425,513	1.64	7,220,664	0.10
10,000 - 15,000	17,247,269	0.20	4,440,019	0.31	219,510	0.85	13,026,760	0.18
15,000 - 20,000	45,813,160	0.54	14,891,434	1.06	545,741	2.11	31,467,467	0.44
20,000 - 25,000	81,955,909	0.97	21,429,384	1.52	183,829	0.71	60,710,354	0.86
25,000 - 30,000	127,620,589	1.50	28,989,895	2.05	188,814	0.73	98,819,508	1.39
30,000 - 40,000	361,739,081	4.27	65,525,310	4.64	309,386	1.20	296,523,157	4.18
40,000 - 60,000	879,371,897	10.37	139,621,197	9.90	484,684	1.87	740,235,384	10.43
60,000 - 80,000	939,031,181	11.07	150,739,640	10.68	309,364	1.20	788,600,905	11.11
80,000 - 100,000	912,856,221	10.76	147,012,069	10.42	357,479	1.38	766,201,631	10.80
100,000 - 150,000	1,612,956,479	19.02	263,488,737	18.68	697,095	2.69	1,350,164,837	19.03
150,000 - 200,000	731,882,738	8.63	104,553,623	7.41	802,555	3.10	628,131,670	8.85
Over 200,000	<u>2,759,656,850</u>	<u>32.54</u>	<u>469,369,279</u>	<u>33.27</u>	<u>19,782,760</u>	<u>76.45</u>	<u>2,310,070,331</u>	<u>32.55</u>
Total	\$8,481,369,462	100.00%	\$1,410,909,869	100.00%	\$25,875,690	100.00%	\$7,096,335,283	100.00%

**Table 8: Distribution of Selected Used Credits by Type of Credit by Adjusted Gross Income Class (Tax Year 2015)**

Total Adjusted Gross Income	Property Tax/Rent		Itemized Deduction		Married Couple		Taxes Paid Other States	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Under \$5,000	\$41,041	0.01%	\$135,689	0.05%	\$21,056	0.01%	\$22,081	0.01%
5,000 - 10,000	157,867	0.04	219,192	0.09	40,563	0.02	37,920	0.01
10,000 - 15,000	3,697,483	0.91	329,406	0.13	64,990	0.02	171,633	0.06
15,000 - 20,000	13,389,504	3.28	704,816	0.27	99,567	0.04	432,391	0.14
20,000 - 25,000	18,929,282	4.64	1,135,500	0.44	278,225	0.11	785,054	0.26
25,000 - 30,000	24,515,635	6.01	1,514,616	0.59	1,176,478	0.45	1,389,540	0.46
30,000 - 40,000	49,274,673	12.08	3,996,489	1.56	7,084,225	2.69	4,292,276	1.42
40,000 - 60,000	81,809,351	20.05	11,031,434	4.30	31,098,878	11.80	13,068,392	4.34
60,000 - 80,000	63,722,099	15.62	15,976,303	6.22	51,608,421	19.59	16,718,136	5.55
80,000 - 100,000	48,038,349	11.77	25,291,989	9.85	52,656,115	19.98	18,536,534	6.15
100,000 - 150,000	62,419,542	15.30	79,181,039	30.84	76,468,377	29.02	40,406,844	13.41
150,000 - 200,000	19,842,068	4.86	35,630,114	13.88	23,202,082	8.81	22,123,478	7.34
Over 200,000	<u>22,209,363</u>	<u>5.44</u>	<u>81,621,910</u>	<u>31.79</u>	<u>19,691,854</u>	<u>7.47</u>	<u>183,244,682</u>	<u>60.83</u>
Total	\$408,046,257	100.00%	\$256,768,497	100.00%	\$263,490,831	100.00%	\$301,228,961	100.00%

**Table 9: Distribution of Minimum Tax Liability by Adjusted Gross Income Class (Tax Year 2015)**

Total Adjusted Gross Income	Count of Taxpayers		Amount		Average Amount
	Count	Percent	Amount	Percent	
Under \$5,000	2,975	8.85%	\$1,568,960	6.06%	\$527
5,000 - 10,000	698	2.08	425,513	1.64	610
10,000 - 15,000	393	1.17	219,510	0.85	559
15,000 - 20,000	258	0.77	545,741	2.11	2,115
20,000 - 25,000	204	0.61	183,829	0.71	901
25,000 - 30,000	180	0.54	188,814	0.73	1,049
30,000 - 40,000	267	0.79	309,386	1.20	1,159
40,000 - 60,000	387	1.15	484,684	1.87	1,252
60,000 - 80,000	243	0.72	309,364	1.20	1,273
80,000 - 100,000	203	0.60	357,479	1.38	1,761
100,000 - 150,000	522	1.55	697,095	2.69	1,335
150,000 - 200,000	1,058	3.15	802,555	3.10	759
Over 200,000	<u>26,235</u>	<u>78.03</u>	<u>19,782,760</u>	<u>76.45</u>	754
Total	33,623	100.00%	\$25,875,690	100.00%	\$770

**Table 10: Distribution of Taxpayers by Filing Status and by Adjusted Gross Income Class (Tax Year 2015)**

Total Adjusted Gross Income	<u>Total</u>		<u>Married Filing Jointly</u>		<u>Single</u>		<u>Single, Claimed as Dependent by Other</u>		<u>Head-of- Household</u>		<u>Married Filing Separately</u>	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Under \$5,000	474,623	15.65%	81,458	6.89%	268,563	20.26%	101,793	45.84%	19,527	7.02%	3,282	13.05%
5,000 - 10,000	246,097	8.11	33,768	2.86	116,908	8.82	73,594	33.14	20,007	7.20	1,820	7.24
10,000 - 15,000	203,053	6.69	33,001	2.79	112,767	8.51	29,086	13.10	26,314	9.46	1,885	7.50
15,000 - 20,000	190,359	6.28	31,561	2.67	115,864	8.74	10,433	4.70	30,597	11.00	1,904	7.57
20,000 - 25,000	181,503	5.98	35,621	3.01	109,250	8.24	3,815	1.72	30,825	11.09	1,992	7.92
25,000 - 30,000	174,427	5.75	41,460	3.51	100,702	7.60	1,595	0.72	28,714	10.33	1,956	7.78
30,000 - 40,000	304,930	10.05	86,026	7.28	170,313	12.85	1,030	0.46	43,840	15.77	3,721	14.80
40,000 - 60,000	414,032	13.65	171,963	14.54	193,122	14.57	397	0.18	43,675	15.71	4,875	19.38
60,000 - 80,000	271,421	8.95	175,973	14.88	74,792	5.64	115	0.05	18,583	6.68	1,958	7.79
80,000 -100,000	187,974	6.20	150,969	12.77	28,753	2.17	52	0.02	7,440	2.68	760	3.02
100,000 -150,000	230,839	7.61	203,756	17.23	21,116	1.59	63	0.03	5,339	1.92	565	2.25
150,000 -200,000	71,785	2.37	64,453	5.45	5,693	0.43	24	0.01	1,461	0.53	154	0.61
Over 200,000	<u>82,430</u>	<u>2.72</u>	<u>72,401</u>	<u>6.12</u>	<u>7,954</u>	<u>0.60</u>	<u>66</u>	<u>0.03</u>	<u>1,731</u>	<u>0.62</u>	<u>278</u>	<u>1.11</u>
Total	3,033,473	100.00%	1,182,410	100.00%	1,325,797	100.00%	222,063	100.00%	278,053	100.00%	25,150	100.00%

## APPENDIX

### History of the Wisconsin Individual Income Tax

#### Development of the Tax Structure

In 1911, Wisconsin became the first state to adopt an individual income tax. Marginal tax rates ranged from 1% on the first \$1,000 of taxable income up to 6% on taxable income in excess of \$12,000. From 1911 to 1978, tax rates gradually increased and additional brackets were added to the tax structure. Since 1979, indexing of the individual income tax brackets expanded the bracket amounts in 1980, 1981, and 1982, while holding the top marginal tax rate at 10%. However, indexing adjustments were suspended for tax years 1983 through 1985.

The marital property reform act (1983 Wisconsin Act 186) and the 1985-87 biennial budget (1985 Wisconsin Act 29) made further changes in the state tax structure, effective in 1986. The marital property reform act established a joint income tax return structure to reflect the concept of taxing spouses as a single economic unit. In Act 29, the number of tax brackets was reduced and the top marginal rate was lowered to 7.9%.

The 1987-89 biennial budget (1987 Wisconsin Act 27) further reduced the number of tax brackets from four to three, lowered the top marginal rate to 6.93%, and deleted indexing.

The tax rates were reduced through two separate pieces of legislation during the 1997-99 legislative session so that the top tax rate was 6.77% beginning with the 1998 tax year. 1997 Wisconsin Act 27 reintroduced indexing, beginning with tax year 1999.

The number of tax brackets was increased from three to four under the 1999-01 biennial budget (1999 Wisconsin Act 9) and the tax rates were reduced so that the top tax rate was 6.75% beginning in 2000. Also, Act 9 further reduced the first three tax rates effective in tax year 2001

and thereafter, but the top rate remained at 6.75%. Effective for tax year 2009 and thereafter, a fifth tax bracket for high-income taxpayers was created by 2009 Wisconsin Act 28, and the marginal tax rate for the bracket was set at 7.75%. Effective in tax year 2013, 2013 Wisconsin Act 20 reduced the rates for each of the tax brackets and consolidated the third and fourth tax brackets into a single tax bracket. 2013 Wisconsin Act 145 reduced the tax rate for the bottom tax bracket, effective in tax year 2014.

In 1911, personal exemptions, which were deducted directly from income, totaled \$800 for an individual, \$1,200 for a married couple, and \$200 for each dependent. With the conversion to credits in 1927, the personal exemption credit along with the standard deduction and itemized deductions determined the level of income at which a family began to pay taxes. In 1977, the low-income allowance and dependent deduction were provided to assure that low-income taxpayers would not be required to file a Wisconsin tax return if they were exempt from filing a federal tax return. Beginning in 1986, a sliding scale standard deduction based on filing status and income level replaced the standard deduction and low-income allowance. 2015 Wisconsin Act 55 adjusted the statutory standard deduction to provide a larger deduction for married filers beginning in tax year 2016. Finally, the working families tax credit was created beginning with the 1998 tax year.

Starting with tax year 2000, Wisconsin eliminated the dependent and senior credits and returned to personal exemptions.

Table 11 charts the historical development of the Wisconsin tax rate and bracket structure. Changes in the personal exemption/credit, the standard deduction, and the low-income allowance are shown in Table 12.

**Table 11: Historical Levels of Wisconsin's Individual Income Tax Rate and Bracket Structure**

Taxable Income Bracket	1911-31	1932-52	1953-61	1962	1963-64	1965	1966-70	1971	1972-78
1st \$1,000	1.00%	1.00%	1.00%	2.00%	2.30%	2.50%	2.70%	2.80%	3.10%
2nd 1,000	1.25	1.25	1.25	2.25	2.55	2.75	2.95	3.10	3.40
3rd 1,000	1.50	1.50	1.50	2.50	2.80	3.00	3.20	3.30	3.60
4th 1,000	1.75	2.00	2.50	3.50	3.80	4.00	4.20	4.30	4.80
5th 1,000	2.00	2.50	3.00	4.00	4.30	4.50	4.70	4.90	5.40
6th 1,000	2.50	3.00	3.50	4.50	4.80	5.00	5.20	5.40	5.90
7th 1,000	3.00	3.50	4.00	5.00	5.30	5.50	5.70	5.90	6.50
8th 1,000	3.50	4.00	5.00	6.00	6.30	6.50	6.70	6.90	7.60
9th 1,000	4.00	4.50	5.50	6.50	6.80	7.00	7.20	7.50	8.20
10th 1,000	4.50	5.00	6.00	7.00	7.30	7.50	7.70	8.00	8.80
11th 1,000	5.00	5.50	6.50	7.50	7.80	8.00	8.20	8.50	9.30
12th 1,000	5.50	6.00	7.00	8.00	8.30	8.50	8.70	9.00	9.90
13th 1,000	6.00	7.00	7.50	8.50	8.80	9.00	9.20	9.50	10.50
14th 1,000	6.00	7.00	8.00	9.00	9.30	9.50	9.70	10.00	11.10
15th 1,000	6.00	7.00	8.50	9.50	9.80	10.00	10.00	10.40	11.40
Over 15,000	6.00	7.00	8.50	10.00	10.00	10.00	10.00	10.40	11.40

**1979 to 1985**

Taxable Income Brackets				Marginal Tax Rates
1979	1980	1981	1982-85	1979 to 1985
\$0 - \$3,000	\$0 - \$3,300	\$0 - \$3,600	\$0 - \$3,900	3.4%
3,000 - 6,000	3,300 - 6,600	3,600 - 7,200	3,900 - 7,700	5.2
6,000 - 9,000	6,600 - 9,900	7,200 - 10,900	7,700 - 11,700	7.0
9,000 - 12,000	9,900 - 13,200	10,900 - 14,500	11,700 - 15,500	8.2
12,000 - 15,000	13,200 - 16,500	14,500 - 18,100	15,500 - 19,400	8.7
15,000 - 20,000	16,500 - 22,000	18,100 - 24,100	19,400 - 25,800	9.1
20,000 - 40,000	22,000 - 44,000	24,100 - 48,200	25,800 - 51,600	9.5
Over 40,000	Over 44,000	Over 48,200	Over 51,600	10.0

**1986 to 1998**

Taxable Income Brackets			Marginal Tax Rates		
Single	Married, Joint	Married, Separate	1986	1987-1997	1998
\$0 - \$7,500	\$0 - \$10,000	\$0 - \$5,000	5.0%	4.90%	4.77%
7,500 - 15,000	10,000 - 20,000	5,000 - 10,000	6.6	6.55	6.37
15,000 - 30,000	20,000 - 40,000	10,000 - 20,000	7.5	6.93	6.77
Over 30,000	Over 40,000	Over 20,000	7.9	6.93	6.77

**1999**

Taxable Income Brackets			Marginal Tax Rates
Single	Married, Joint	Married, Separate	Tax Rates
\$0 - \$7,620	\$0 - \$10,160	\$0 - \$5,080	4.77%
7,620 - 15,240	10,160 - 20,320	5,080 - 10,160	6.37
Over 15,240	Over 20,320	Over 10,160	6.77

**2000**

Taxable Income Brackets			Marginal Tax Rates
Single	Married, Joint	Married, Separate	Tax Rates
\$0 - \$7,790	\$0 - \$10,390	\$0 - \$5,200	4.73%
7,790 - 15,590	10,390 - 20,780	5,200 - 10,390	6.33
15,590 - 116,890	20,780 - 155,850	10,390 - 77,930	6.55
Over 116,890	Over 155,850	Over 77,930	6.75

**Table 11: Historical Levels of Wisconsin's Individual Income Tax Rate and Bracket Structure (continued)**

**2001**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	
\$0 - \$8,060	\$0 - \$10,750	\$0 - \$5,380	4.60%
8,060 - 16,130	10,750 - 21,500	5,380 - 10,750	6.15
16,130 - 116,330	21,500 - 155,100	10,750 - 77,550	6.50
Over 116,330	Over 155,100	Over 77,550	6.75

**2002**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	
\$0 - \$8,280	\$0 - \$11,040	\$0 - \$5,520	4.60%
8,280 - 16,560	11,040 - 22,080	5,520 - 11,040	6.15
16,560 - 124,200	22,080 - 165,600	11,040 - 82,800	6.50
Over 124,200	Over 165,600	Over 82,800	6.75

**2003**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	
\$0 - \$8,430	\$0 - \$11,240	\$0 - \$5,620	4.60%
8,430 - 16,860	11,240 - 22,480	5,620 - 11,240	6.15
16,860 - 126,420	22,480 - 168,560	11,240 - 84,280	6.50
Over 126,420	Over 168,560	Over 84,280	6.75

**2004**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	
\$0 - \$8,610	\$0 - \$11,480	\$0 - \$5,740	4.60%
8,610 - 17,220	11,480 - 22,960	5,740 - 11,480	6.15
17,220 - 129,150	22,960 - 172,200	11,480 - 86,100	6.50
Over 129,150	Over 172,200	Over 86,100	6.75

**2005**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	
\$0 - \$8,840	\$0 - \$11,780	\$0 - \$5,890	4.60%
8,840 - 17,680	11,780 - 23,570	5,890 - 11,780	6.15
17,680 - 132,580	23,570 - 176,770	11,780 - 88,390	6.50
Over 132,580	Over 176,770	Over 88,390	6.75

**2006**

<u>Taxable Income Brackets</u>			<u>Marginal Tax Rates</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	
\$0 - \$9,160	\$0 - \$12,210	\$0 - \$6,110	4.60%
9,160 - 18,320	12,210 - 24,430	6,110 - 12,210	6.15
18,320 - 137,410	24,430 - 183,210	12,210 - 91,600	6.50
Over 137,410	Over 183,210	Over 91,600	6.75

**Table 11: Historical Levels of Wisconsin's Individual Income Tax Rate and Bracket Structure (continued)**

<b>2007</b>			
<u>Taxable Income Brackets</u>			<u>Marginal</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Tax Rates</u>
\$0 - \$9,510	\$0 - \$12,680	\$0 - \$6,340	4.60%
9,510 - 19,020	12,680 - 25,360	6,340 - 12,680	6.15
19,020 - 142,650	25,360 - 190,210	12,680 - 95,100	6.50
Over 142,650	Over 190,210	Over 95,100	6.75
<b>2008</b>			
<u>Taxable Income Brackets</u>			<u>Marginal</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Tax Rates</u>
\$0 - \$9,700	\$0 - \$12,930	\$0 - \$6,470	4.60%
9,700 - 19,400	12,930 - 25,860	6,470 - 12,930	6.15
19,400 - 145,460	25,860 - 193,950	12,930 - 96,980	6.50
Over 145,460	Over 193,950	Over 96,980	6.75
<b>2009</b>			
<u>Taxable Income Brackets</u>			<u>Marginal</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Tax Rates</u>
\$0 - \$10,220	\$0 - \$13,620	\$0 - \$6,810	4.60%
10,220 - 20,440	13,620 - 27,250	6,810 - 13,620	6.15
20,440 - 153,280	27,250 - 204,370	13,620 - 102,190	6.50
153,280 - 225,000	204,370 - 300,000	102,190 - 150,000	6.75
Over 225,000	Over 300,000	Over 150,000	7.75
<b>2010</b>			
<u>Taxable Income Brackets</u>			<u>Marginal</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Tax Rates</u>
\$0 - \$10,070	\$0 - \$13,420	\$0 - \$6,710	4.60%
10,070 - 20,130	13,420 - 26,850	6,710 - 13,420	6.15
20,130 - 151,000	26,850 - 201,340	13,420 - 100,670	6.50
151,000 - 221,660	201,340 - 295,550	100,670 - 147,770	6.75
Over 221,660	Over 295,550	Over 147,770	7.75
<b>2011</b>			
<u>Taxable Income Brackets</u>			<u>Marginal</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Tax Rates</u>
\$0 - \$10,180	\$0 - \$13,580	\$0 - \$6,790	4.60%
10,180 - 20,360	13,580 - 27,150	6,790 - 13,580	6.15
20,360 - 152,740	27,150 - 203,650	13,580 - 101,820	6.50
152,740 - 224,210	203,650 - 298,940	101,820 - 149,470	6.75
Over 224,210	Over 298,940	Over 149,470	7.75
<b>2012</b>			
<u>Taxable Income Brackets</u>			<u>Marginal</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Tax Rates</u>
\$0 - \$10,570	\$0 - \$14,090	\$0 - \$7,040	4.60%
10,570 - 21,130	14,090 - 28,180	7,040 - 14,090	6.15
21,130 - 158,500	28,180 - 211,330	14,090 - 105,660	6.50
158,500 - 232,660	211,330 - 310,210	105,660 - 155,110	6.75
Over 232,660	Over 310,210	Over 155,110	7.75

**Table 11: Historical Levels of Wisconsin's Individual Income Tax Rate and Bracket Structure (continued)**

<b>2013</b>			
<u>Taxable Income Brackets</u>			<u>Marginal</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Tax Rates</u>
\$0 - \$10,750	\$0 - \$14,330	\$0 - \$7,160	4.40%
10,750 - 21,490	14,330 - 28,650	7,160 - 14,330	5.84
21,490 - 236,600	28,650 - 315,460	14,330 - 157,730	6.27
Over 236,600	Over 315,460	Over 157,730	7.65

<b>2014</b>			
<u>Taxable Income Brackets</u>			<u>Marginal</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Tax Rates</u>
\$0 - \$10,910	\$0 - \$14,540	\$0 - \$7,270	4.00%
10,910 - 21,820	14,540 - 29,090	7,270 - 14,540	5.84
21,820 - 240,190	29,090 - 320,250	14,540 - 160,130	6.27
Over 240,190	Over 320,250	Over 160,130	7.65

<b>2015</b>			
<u>Taxable Income Brackets</u>			<u>Marginal</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Tax Rates</u>
\$0 - \$11,090	\$0 - \$14,790	\$0 - \$7,400	4.00%
11,090 - 22,190	14,790 - 29,580	7,400 - 14,790	5.84
22,190 - 244,270	29,580 - 325,700	14,790 - 162,850	6.27
Over 244,270	Over 325,700	Over 162,850	7.65

<b>2016</b>			
<u>Taxable Income Brackets</u>			<u>Marginal</u>
<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Tax Rates</u>
\$0 - \$11,120	\$0 - \$14,820	\$0 - \$7,410	4.00%
11,120 - 22,230	14,820 - 29,640	7,410 - 14,820	5.84
22,230 - 244,750	29,640 - 326,330	14,820 - 163,170	6.27
Over 244,750	Over 326,330	Over 163,170	7.65

**Table 12: Historic Levels of Personal Exemptions/Credits, Standard Deduction, and Low Income Allowance**

<i>Personal Exemptions/Credits</i>												
	1911 Exemption	1925 Exemption	1927 Credit	1931 Credit	1953 Credit	1965 Credit	1971 Credit	1972 Credit	1974 Credit	1986a Credit	2000 Exemption	2001 & Thereafter Exemption
Individual	\$800	\$800	\$8.00	\$8.00	\$7	\$10	\$12	\$15	\$20	\$-0-	\$600	\$700
Married-Joint	1,200	1,600	17.50	17.50	14	20	24	30	40	-0-	1,200	1,400
Dependent	200	300	3.00	4.00	7	10	12	15	20	50	600	700
65 and Over	800	800	8.00	7.00	7	15	17	20	25	25	200	250

<i>Standard Deduction and Low Income Allowance</i>										
	1911	1949	1962	1965	1971	1972	1973	1977	1979 to 1985	
Minimum	-0-	-0-	-0-	\$300	\$475	\$1,000	\$1,300	\$1,300 to \$5,700b		\$1,300 to \$5,700b
Maximum	-0-	\$450	\$1,000	1,000	1,250	2,000	2,000	2,000	Single: \$2,300; Married: \$3,400	
Percentage of Income	-0-	9%	10%	10%	11%	14%	15%	15%	-0- (Formula Based)	

*Sliding Scale Standard Deduction*

	1986			1987			1988 to 1993		
	Single	Married-J	Married-S	Single	Married-J	Married-S	Single	Married-J	Married-S
Maximum Standard Deduction	\$5,200	\$7,200	\$5,200	\$5,200	\$7,560	\$3,590	\$5,200	\$8,900	\$4,230
Phase-Out Income	7,500	10,000	4,750	7,500	10,000	4,750	7,500	10,000	4,750
Phase-Out Rate	12.0%	10.667%	10.667%	12.0%	12.5%	12.5%	12.0%	19.778%	19.778%
Maximum Income	50,830	77,500	36,810	50,830	70,480	33,470	50,830	55,000	26,140

	1994 to 1998				1999			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	\$5,200	\$8,900	\$4,230	\$7,040	\$5,280	\$9,040	\$4,300	\$7,150
Phase-Out Income	7,500	10,000	4,750	7,500	7,620	10,160	4,830	7,620
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	50,830	55,000	26,140	25,000c	51,620	55,867	26,571	25,404c

	2000				2001			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	\$7,200	\$12,970	\$6,160	\$9,300	\$7,440	\$13,410	\$6,370	\$9,620
Phase-Out Income	10,380	14,570	6,920	10,380	10,730	15,070	7,160	10,730
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	70,380	80,150	38,070	30,350c	72,730	82,872	39,367	31,460c

**Table 12: Historic Levels of Personal Exemptions/Credits, Standard Deduction, and Low Income Allowance (continued)**

	2002				2003			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	\$7,650	\$13,770	\$6,540	\$9,880	\$7,790	\$14,030	\$6,660	\$10,060
Phase-Out Income	11,020	15,470	7,350	11,020	11,220	15,760	7,480	11,220
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	74,770	85,092	40,417	32,230 <sup>c</sup>	76,136	86,697	41,154	32,809 <sup>c</sup>
	2004				2005			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	\$7,950	\$14,330	\$6,810	\$10,270	\$8,170	\$14,710	\$6,990	\$10,550
Phase-Out Income	11,470	16,100	7,640	11,470	11,770	16,520	7,850	11,770
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	77,720	88,554	42,072	33,534 <sup>c</sup>	79,853	90,895	43,192	34,404 <sup>c</sup>
	2006				2007			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	\$8,460	\$15,240	\$7,240	\$10,930	\$8,790	\$15,830	\$7,520	\$11,350
Phase-Out Income	12,200	17,120	8,130	12,200	12,670	17,780	8,440	12,670
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	82,700	94,175	44,736	35,690 <sup>c</sup>	85,920	97,818	46,462	37,016 <sup>c</sup>
	2008				2009			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	\$8,960	\$16,140	\$7,660	\$11,570	\$9,440	\$17,010	\$8,080	\$12,190
Phase-Out Income	12,920	18,130	8,610	12,920	13,610	19,100	9,070	13,610
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	87,587	99,736	47,340	37,742 <sup>c</sup>	92,277	105,105	49,923	39,763 <sup>c</sup>
	2010				2011			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	\$9,300	\$16,750	\$7,960	\$12,010	\$9,410	\$16,940	\$8,050	\$12,150
Phase-Out Income	13,410	18,820	8,940	13,410	13,560	19,040	9,040	13,560
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	90,910	103,510	49,187	39,183 <sup>c</sup>	91,977	104,691	49,742	39,618 <sup>c</sup>

**Table 12: Historic Levels of Personal Exemptions/Credits, Standard Deduction, and Low Income Allowance (continued)**

	2012				2013			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	\$9,760	\$17,580	\$8,350	\$12,610	\$9,930	\$17,880	\$8,490	\$12,820
Phase-Out Income	14,070	19,750	9,380	14,070	14,310	20,090	9,540	14,310
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	95,403	108,637	51,599	41,174 <sup>c</sup>	97,060	110,493	52,466	41,795 <sup>c</sup>
	2014				2015			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	\$10,080	\$18,150	\$8,620	\$13,020	\$10,250	\$18,460	\$8,770	\$13,240
Phase-Out Income	14,530	20,390	9,690	14,530	14,780	20,740	9,850	14,780
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	98,530	112,159	53,274	42,490 <sup>c</sup>	100,197	114,076	54,192	43,216 <sup>c</sup>
	2016							
	Single	Married-J	Married-S	Head-of-Household				
Maximum Standard Deduction	\$10,270	\$19,010	\$9,030	\$13,260				
Phase-Out Income	14,800	21,360	10,140	14,800				
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%				
Maximum Income	100,383	117,477	55,797	43,236 <sup>c</sup>				

<sup>a</sup> The \$25 senior credit was phased out for higher income taxpayers for tax years 1997 through 1999.

<sup>b</sup> The low income allowance and dependent deduction varied depending upon age, marital status, number of dependents, and income level and could have exceeded the maximum.

<sup>c</sup> Once head-of-household taxfilers reach the maximum income amount, the single standard deduction is claimed.

**Table 13: Individual Income Tax Surcharges**

Tax Year		
1918	1.	Soldiers' cash bonus surtax (\$3,000 exempt).
1918-1922	2.	Soldiers' educational bonus surtax (\$3,000 exempt-above \$3,000 rates 1/6 of normal tax).
1920-1952	3.	Teachers' retirement fund surtax (\$3,000 exempt-above \$3,000 rates 1/6 of normal tax).
1931	4.	1932 emergency relief surtax--(on 1931 income-deductible dividends added back. Capital gains and losses eliminated. Rates same as normal tax).
1932	5.	1933 emergency relief surtax--(on 1932 income. Deductible dividends added back).
1933	6.	Surtax on 1933 deductible dividends.
1934	7.	1935 surtax on 1934 income deductible dividends added back. Losses allowable only to extent of gains.
1935-1942	8.	60% surtax, old age assistance--mothers' pensions--common school aids. Tax 60% of normal tax after deducting personal exemptions.
1947-1948	9.	Optional tax on gross receipts--not over \$3,500 income.
1949-1952		--not over \$5,000 income.
1949-1950	10.	25% construction and educational aids surtax. 25% of normal tax after exemptions.
1953-1961	11.	Optional tax on adjusted gross income.
1955-1958 and	12.	20% buildings, health, welfare, and education surtax. 20% of normal tax (including teachers' retirement fund surtax) after exemptions.
1960-1961 1959	13.	25% buildings, health, welfare, and education surtax. 25% of normal tax (including teachers' retirement fund surtax) after exemptions.
1983	14.	10% surtax on tax liabilities to provide revenues for general fund.

### **Income Tax Surcharges**

Between 1918 and 1962, Wisconsin had a series of individual income tax surcharges for a number of purposes including: soldiers' cash bonuses; education, retirement old-age assistance, and health purposes; and emergency relief. The level of the surtax rose to a maximum of 60% of the normal tax between 1935 and 1942, but was substantially lower during nonwar periods. In 1983, the state imposed a 10% surtax on 1983 calendar year tax liabilities to compensate for slower state revenue growth during a recession. Table 13 shows the type and level of the various surcharges adopted over time on the Wisconsin individual income tax.

### **Income Tax Check-Offs**

Wisconsin provides individual income tax check-off procedures on the income tax forms through which taxpayers may make donations for a variety of specified purposes. From 1983 through 2000, there was a single option for mak-

ing charitable donations along with filing the individual income tax, in the form of a check-off for endangered resources. Starting in 2001, a check-off was added for donations for operation and maintenance of Lambeau Field in Green Bay, and since then, additional check-offs have been created.

In response to the increasing number of check-offs, 2011 Wisconsin Act 222 combined the breast cancer research check-off and the prostate cancer research check-off into a single check-off for cancer research. In addition, the Act established a procedure for limiting the number of check-offs in any tax year to ten. Under the procedure, the least used check-offs would temporarily rotate off the form, if more than ten check-offs have been created. A second provision enacted as part of 2013 Wisconsin Act 20 eliminated any check-off from tax forms that did not generate at least \$75,000 in contributions in the previous tax year. This provision took effect in tax year 2015 and, based on contributions in tax year 2014, the income tax check-offs for Lam-

beau Field and the Fire Firefighter Memorial were eliminated in tax year 2015. 2015 Wisconsin Act 55 modified this provision so that any checkoff that does not generate at least \$50,000 per year based on a three-year average of contributions, beginning with contributions made in tax year 2014, will be eliminated from the tax form.

Table 14 reports the amounts donated through individual income tax check-off procedures for tax year 2015.

Between 1977 and 2010, the individual income tax form included a check-off to provide funding for public financing of elections. Prior to 2010, the Wisconsin Election Campaign Fund (WECF) was the sole beneficiary, providing funding to eligible candidates for Supreme Court Justice, Governor, Lieutenant Governor, Attorney General, State Treasurer, Secretary of State, Superintendent of Public Instruction, State Senate, and State Assembly. In 2010, the check-off was expanded to include the Democracy Trust Fund, which provided grants to candidates for Supreme Court Justice, and those candidates no longer received grants from the WECF. Unlike the check-offs for charitable donations, a designation for the two funds did not affect the amount of tax liability or tax refund. The check-off was repealed by 2011 Wisconsin Act 32, and the check-off has not appeared on individual income tax forms since 2010.

### **Chronology of Modifications Since 1979**

Chapter 1, Laws of 1979, significantly reduced the level of individual income tax collections in Wisconsin and recast the state tax structure through provisions to increase the standard deduction, repeal itemized deductions for state and local taxes, widen and index tax brackets and lower tax rates, and provide a property tax/rent credit.

In Chapter 20, Laws of 1981, the state's exclusion for net long-term capital gains was

**Table 14: Donations Through Individual Income Tax Check-Offs for Tax Year 2015**

Endangered Species	\$251,743
Cancer Research	152,841
Second Harvest Food Banks	143,102
Military Family Relief Fund	119,114
Veterans Trust Fund	110,923
Special Olympics	89,130
Red Cross Wisconsin Disaster Relief	85,612
Multiple Sclerosis Programs	71,139

phased in over a three-year period beginning in tax year 1982: a 20% exclusion was provided in 1982, 40% in 1983, and 60% in 1984 and thereafter. The federal capital gains exclusion was repealed in the Tax Reform Act of 1986. However, the 60% state exclusion was retained under 1987 Wisconsin Act 27.

The conversion to joint tax returns for state tax purposes was adopted in 1983 Wisconsin Act 186.

In 1985 Wisconsin Act 29, individual income tax revenues were reduced by modifying the base of income subject to tax, the tax rates and brackets, the allowable tax credits and deductions, and the state minimum tax. Further changes were made to the tax base, rates and brackets, and minimum tax in 1987 Wisconsin Act 27.

In 1989 Wisconsin Act 31, the married couple credit was reduced and the property tax/rent credit was raised. Act 31 also provided one-time increases to the 1987 and 1988 school property tax/rent credits, paid to taxpayers in the form of a refund check that was sent out in April, 1990.

Under 1991 Wisconsin Act 39, the state earned income tax credit was modified to reflect the federal credit in effect under current law, and the state's \$1,200 limit on other interest under the itemized deduction credit was eliminated, beginning in 1993. A separate 25% state deduction for medical care insurance costs of self-employed

persons and employees who are not covered by an employer-maintained health insurance plan was established for tax year 1993 under 1991 Act 269; this deduction increased to 50% in 1994.

In 1993 Wisconsin Act 16, the head-of-household standard deduction was created, effective in tax year 1994. In addition, the deduction for medical insurance costs of self-employed individuals was increased to 100%, effective in tax year 1995. The deduction for employees remained at 50%. The previous separate state treatment of social security was established in 1993 Wisconsin Act 437, which retained references to the old federal IRC for purposes of the taxation of social security benefits.

The following income tax deductions and exemptions were created during the 1995 legislative session: (a) Wisconsin Act 261 created a deduction for adoption expenses; (b) Wisconsin Act 371 created an exemption for income received under a viatical settlement contract; (c) Wisconsin Act 453 created a deduction for contributions to a medical savings account (MSA), applicable when a broad-based federal program is enacted and certified by the Secretary of DOR; and (d) Wisconsin Act 403 created an exemption for earnings realized on contributions to a college tuition prepayment program.

A number of individual income tax changes were enacted as part of the 1997-99 biennial budget (1997 Act 27). Beginning with the 1997 tax year, the senior citizen credit was limited to lower-income seniors and the state provisions related to MSAs were repealed because the federal MSA program was adopted for state tax purposes. Effective with the 1998 tax year, the income tax rates were reduced, the working families tax credit was created, the married couple credit was increased (phased-in over a four-year period), a complete capital gains exclusion for the sale of a business to a family member was provided, and a deduction for premiums paid for long-term care insurance was created. Act 27 also

made two changes that took effect with the 1999 tax year: the standard deduction and tax brackets were indexed for changes in inflation and the limits on farm and farm investment losses that may be used to offset nonfarm income were repealed for persons actively engaged in farming.

The 1997-99 budget adjustment act (1997 Wisconsin Act 237) made the following changes, beginning with the 1998 tax year: (a) created a deduction for higher education tuition expenses; (b) reduced the income tax rates; and (c) adopted federal IRC changes, including the creation of the Roth IRA. Act 237 also provided for the one-time expansion of the property tax/rent credit for tax year 1998.

A significant number of modifications were made to the individual income tax during the 1999-01 legislative session. The biennial budget (1999 Wisconsin Act 9) increased the sliding scale standard deduction, created personal exemptions, provided an exemption for Nazi persecution restitution funds, created a fourth income tax bracket, reduced the income tax rates, eliminated miscellaneous deductions from the itemized deduction credit, increased the married couple credit, created a credit for military income received while serving overseas, eliminated the dependent and senior citizen tax credits, and expanded the homestead credit. These income tax modifications took effect with the 2000 tax year, except that the homestead credit expansion first applied to claims filed for property taxes or rent paid during tax year 1999.

The PTRC was repealed beginning with the 1999 tax year as part of the sales tax rebate legislation (1999 Wisconsin Act 10). However, the credit was later restored, beginning with tax years 2000 and thereafter, in 1999 Wisconsin Act 198.

1999 Wisconsin Act 44 created a deduction for certain contributions to EdVest college savings programs.

The 2001-03 biennial budget act (Act 16) provided an income tax exemption for all federal, uniformed services retirement benefits, effective with tax year 2002. Under the 2001-03 biennial budget adjustment act (Act 109), the deduction for contributions by parents to EdVest programs was extended to grandparents of a beneficiary. Act 109 also updated Wisconsin references to the federal IRC for most federal law changes under the Community Renewal Tax Relief Act of 2000 and under the Economic Growth and Tax Relief Reconciliation Act of 2001. The major individual income tax changes under the IRC update were the increase in contribution limits to IRAs, temporary increases in the alternative minimum tax exemption, and the expansion of a number of educational assistance programs. However, Act 109 deleted provisions under prior law that had provided for automatic updates to federal law with respect to amortization and depreciation. As a result, in general, such provisions can only be adopted for state tax purposes after action by the Legislature, as is the case with other federal law changes.

During the 2003-05 legislative session, several new deductions and tax credits were enacted into law under non-budget legislation. Act 85 provided that interest on WHEDA bonds issued to fund multifamily affordable housing or elderly housing projects is exempt from tax. Act 119 created an individual income tax deduction for up to \$10,000 for certain expenses related to human organ donation by a live donor. Under Act 183, a tax deduction was provided for military pay to reservists mobilized by the federal government, whether or not the service is in a combat zone. Act 289 expanded the \$3,000 deduction for contributions by parents and grandparents to EdVest college savings programs to include contributions by great-grandparents, aunts, and uncles of a beneficiary. The modifications related to WHEDA bond interest, organ donation, military pay, and EdVest contributions were all effective with tax year 2004. The angel investment credit and early stage seed capital credit were created

under Act 255 and took effect in tax year 2005.

Under the 2005-07 biennial budget (2005 Act 25), state tax references were generally updated to the IRC in effect as of December 31, 2004. The individual income tax deduction for college tuition was increased, effective with tax year 2005, and scheduled to increase annually along with average tuition costs. The partial exemption for social security benefits was increased to a full exemption, starting in tax year 2008. Expansions to the existing deductions for medical insurance premiums were approved, to be phased-in over a four-year period beginning in tax year 2006. Act 25 increased an existing nonrefundable income tax credit for military income earned while stationed outside of the United States, effective with tax year 2006, and created an income tax check-off for donations to the Veterans Trust Fund. In addition, Act 25 created a refundable tax credit for property taxes paid by certain veterans and surviving spouses, effective with tax year 2005 (the credit was subsequently modified several items).

Also, four new tax check-offs were created during the 2005-07 session. 2005 Act 25 created an individual income tax check-off for donations to the Veterans Trust Fund, starting with tax year 2005. The remaining three new check-offs all took effect for taxable years beginning on or after January 1, 2006, and include check-offs for donations to multiple sclerosis programs (2005 Act 71), the Fire Fighters Memorial (2005 Act 323), and for prostate cancer research (2005 Act 460).

The 2007-09 biennial budget (2007 Act 20) updated state tax references to include changes to the IRC enacted in 2005 and through November, 2006, except for IRC changes related to income and franchise taxation of regulated investment companies, real estate investment trusts, and related entities.

In addition, the Act made several changes related to deductions and exemptions, thereby

changing the definition of Wisconsin taxable income. These include phasing in between 2008 and 2011 a deduction for medical care insurance premiums paid by an employee whose employer pays for some portion of the employee's health insurance costs, increasing the maximum college tuition deduction from twice the average amount charged at University of Wisconsin System four-year institutions for the most recent fall semester to the greater of that amount or \$6,000 beginning in tax year 2009, modifying the college tuition deduction to apply to mandatory student fees as well as tuition expenses effective in tax year 2009, phasing in beginning in tax year 2009 a deduction for certain expenses related to child and dependent care that may be claimed under the federal credit for child and dependent care expenses over a four-year period, and providing an exemption for interest paid on certain bonds issued by the Wisconsin Health and Educational Facilities Authority starting with tax year 2009.

For purposes of calculating Wisconsin AGI, the Act also requires non-residents and part-year residents to add back to federal AGI two items that are deductible under federal law and not otherwise taxable by the state. These include the domestic production activities deduction and the deduction for attorney fees and court costs pertaining to certain claims involving unlawful discrimination, the U.S. government, or the Social Security Act. In addition, Act 20 provided an individual income tax exclusion for up to \$5,000 per person aged 65 or older for taxpayers with adjusted gross income of \$15,000 or less (\$30,000 or less for married-joint filers) for distributions from qualified retirement plans under the federal Internal Revenue Code, effective with tax year 2009.

Act 20 also expanded three existing tax credits. The veterans and spouses property tax credit was expanded effective with tax year 2009 with regard to the eligibility requirements for two of the four categories of credit recipients. Changes included extending the credit to veterans who are

otherwise eligible and have been residents of Wisconsin for five consecutive years, eliminating the 65-year-old age requirement, and changing the service disability threshold to include veterans being rated as being individually unemployable and, therefore, receiving 100% disability benefits. Act 20 expanded the angel investment credit and early stage seed investment credit by increasing the amount of credits that can be claimed each year, eliminating provisions requiring the credits to be added to income, requiring investments to be maintained for at least three years, and permitting investments in an additional type of business.

During the 2009-2010 legislative session, changes to the state individual income tax affected the rate and bracket structure, deductions to income, tax credits, and tax check-offs. In the 2009-11 biennial budget (2009 Wisconsin Act 28), the Legislature created a fifth tax bracket with a marginal tax rate of 7.75% for upper income taxpayers. In addition, the Act provided that the indexing adjustment for the tax brackets and the sliding scale standard deduction could not be negative, beginning with tax year 2012.

Act 28 modified the exclusion for long-term capital gains by reducing the exclusion for non-farm assets from 60% to 30%, beginning in tax year 2009, and by creating a 100% exclusion for long-term gains reinvested in qualified new business ventures, beginning in tax year 2011. The Act postponed three deductions enacted in prior years by freezing each deduction's phase-in percentage for tax years 2009 and 2010 at the percentage in effect in tax year 2008. These included the deductions for health insurance premiums paid by employees whose employer pays some portion of the employee's health insurance costs, for medical insurance premiums paid by an individual who does not have an employer and who has no self-employment income, and for expenses related to child and dependent care. Also, the deduction for college savings accounts was modified to permit contributions where the beneficiary

is the contributor's child, but the child is not a dependent.

Also, Act 28 generally updated state tax references to reflect the IRC in effect as of December 31, 2008, although a number of significant federal law changes were not included in the update. Subsequently, Act 161 updated IRC references to allow taxpayers with adjusted gross income over \$100,000 to convert a traditional IRA to a Roth IRA without penalty and to recognize higher contribution levels to various types of retirement accounts, including IRAs, traditional 401(k) plans, 457 deferred compensation plans, savings incentive match plans for employees (SIMPLE plans), Roth 401(k) plans, and Roth 403(b) plans. Act 205 created a new type of debt obligation called conduit revenue bonds and provided a state income tax exclusion for interest on those bonds.

Provisions in Act 28 modified the itemized deduction credit to include casualty losses related to Presidentially-declared disasters and the earned income tax credit to allow advanced payments. Because this provision is tied to advance payments of the federal credit, which were discontinued, advance payments of the state credits have also been discontinued.

Also, two additional income tax check-offs were created in Act 28. The check-offs are for Second Harvest Food Banks in Wisconsin and for the Military Family Relief Fund, effective in tax year 2009. Act 89 expanded the State Election Campaign Fund check-off by increasing the amount of the check-off by \$2 and designating the increase for the Democracy Trust Fund. Proceeds from the fund are used for public financing of state Supreme Court elections.

Changes to the state individual income tax during the 2011-2012 legislative session affected deductions to income, tax credits, and tax check-offs. Act 32 modified the deduction for contributions to college savings accounts and created a deferral and an exclusion related to capital gains

tied to in-state investments.

Also, Act 32 generally updated state tax references to reflect the IRC in effect as of December 31, 2010, although a number of significant federal law changes were not included in the update. Also, the Act specified that employee-required contributions to the Wisconsin Retirement System must be considered as employer contributions under the IRC. In addition, the treatment of health savings accounts and health insurance benefits for non-dependent children was federalized in Acts 1 and 49, respectively.

Modifications were made to the earned income tax credit (Act 32) and the angel and early seed investment tax credits (Acts 32 and 213). In addition, Act 32 created the domestic production activities credit, which was subsequently renamed the manufacturing and agriculture credit in Act 232. The Act 32 changes to the earned income tax credit reduced the credit percentages for claimants with two children from 14% to 11% and for claimants with more than two children from 43% to 34%, effective with tax year 2011. The credit percentage for claimants with one child was not changed.

Finally, Act 32 eliminated the check-off for the Democracy Trust Fund and the Wisconsin Election Campaign Fund. Also, Act 32 created a check-off for the Red Cross, and Act 76 created a check-off for Special Olympics. In response to the increasing number of check-offs, Act 222 combined the two cancer-related check-offs and established a procedure for limiting the number of check-offs in any tax year to 10.

A number of major changes were made to the individual income tax during the 2013-14 legislative session by 2013 Wisconsin Act 20 (the biennial budget act) and by 2013 Wisconsin Act 145. Act 20 reduced the rates for each of the tax brackets and consolidated the third and fourth tax brackets into a single bracket effective in tax year 2013, and Act 145 reduced the tax rate for the

bottom income tax bracket effective in tax year 2014. Other Act 20 changes included providing a deduction for K-12 private school tuition, indexing the income phase-out for the college tuition deduction, increasing the historic rehabilitation credit, expanding the veterans and surviving spouses property tax credit, and prohibiting individuals who fraudulently or recklessly claim any refundable tax credit from claiming any refundable tax credit in a certain number of succeeding years.

A number of the Act 20 changes were intended to increase the state's conformity with the federal income tax by modifying current law provisions regarding net operating losses, farm loss limits, capital gains on small business stock, and the depreciation, depletion, and expensing of property and by updating statutory references to the Internal Revenue Code. Other Act 20 changes were intended to simplify the tax by sunseting various tax credits, extending the research credits to non-corporate filers, and eliminating income tax checkoffs that do not achieve minimum amounts of donations.

In addition to the rate reduction for the bottom income tax bracket, Act 145 extended the manufacturing and agriculture, historic rehabilitation, and research tax credits as offsets to the alternative minimum tax, and federalized the treatment of depletion on an ongoing (automatic) basis.

In addition to Acts 20 and 145, other changes to the income tax included creating exclusions from income for military income received by U.S. armed forces members who die while on active duty in a combat zone or from wounds, disease, or injury incurred while serving in a combat zone (Act 19) and for certain grants received by primary care physicians or psychiatrists who practice in underserved areas of Wisconsin (Act 128). Act 62 expanded the state supplement to the federal historic rehabilitation credit by increasing the credit rate, extending the

credit to qualified rehabilitated buildings, and applying the credit against the alternative minimum tax. Act 227 expanded the individuals who may contribute to college savings program accounts and created an inflation adjustment for annual contribution amounts.

2015 Wisconsin Act 55, the 2015-17 biennial budget bill, made the following changes to state income tax law: (a) increased the standard deduction for married filers; (b) federalized the treatment of exemption amounts and phase-out provisions under the AMT, beginning in tax year 2017; (c) adopted federal provisions allowing educator classroom expenses to be deducted; (d) modified deductible 529 higher education plans to index the maximum deduction limit and allow similar plans in other states to roll over contributions into Wisconsin accounts; (e) adopted federal provisions governing ABLE accounts and allowed contributions made into such accounts to be deductible; (f) lowered the threshold for when income tax checkoffs must be eliminated from the income tax form; (g) modified and sunset a number of business tax credits; and (h) created the business development credit. Act 55 also adopted a number of changes made to the IRC through December 31, 2013, as well as several federal law changes enacted in December of 2014.

During the 2015-2016 legislative session, 2015 Wisconsin Acts 60, 84, and 312 made certain modifications to state income tax law. Interest income from bonds issued by the City of Milwaukee to assist the Wisconsin Center District became exempt from tax under Act 60. Under Act 84, income generated by out-of-state employees or businesses performing certain disaster relief work in connection with a state of emergency declared by the Governor was excluded from tax. The deduction for contributions made into ABLE accounts was extended to apply to accounts created in other states, pursuant to Act 312.