

GENERAL FUND TAXES

Omnibus Motion
[LFB Paper #360 thru #366, #385, #395, and #396]

Motion:

Move to incorporate the following items into the substitute amendment.

1. *Income Tax Rate Reductions.* Beginning in tax year 2023, reduce the top marginal individual income tax rate (currently 7.65%) to 6.50%, collapse the third bracket into the second bracket and reduce the corresponding rate to 4.40%, and reduce the 3.54% rate to 3.50%. Estimate reduced individual income tax collections of \$1,489,300,000 in 2023-24 and \$1,421,400,000 in 2024-25.

2. *Withholding Table Adjustments (Paper #365).* Direct the Department of Revenue (DOR) Secretary to issue guidance no later than October 1, 2023, updating the individual income tax withholding tables to reflect the tax rates, brackets, and sliding scale standard deduction in effect for tax year 2024. Specify that these withholding table changes first take effect on January 1, 2024. In conjunction with the income tax rate reductions under Item 1, estimate a one-time reduction in individual income tax revenues of \$603,400,000 in 2023-24 (Based on Alternative 1 in LFB Paper #365).

3. *Deduction for Interest on Commercial Loans.* Create an income and franchise tax deduction, beginning in tax year 2023, for the income of a financial institution derived from a commercial loan of \$5 million or less provided to a person residing or located in this state and used primarily for a business or agricultural purpose. Estimate reduced income and franchise tax collections of \$35,900,000 in 2023-24 and \$29,300,000 in 2024-25. Estimate surcharge revenues paid by banks into the economic development fund to decrease by \$130,000 annually, beginning in 2024-25. As a result, estimate that amounts appropriated from the economic development fund to the Wisconsin Economic Development Corporation (WEDC) are reduced by \$130,000 in 2024-25.

4. *Apportionment of Gross Receipts from Trading Assets.* Specify in the administrative code that DOR's authority to substitute net gains (net of commissions) from the sales of trading assets, for purposes of apportionment, does not apply to any taxpayer who, before January 1, 2023, elected to use the customer billing address method and who has not revoked that election, and who, for any taxable year beginning on or after January 1, 2022, determines its receipts factor by using the average of the receipts factors determined using gross receipts, net of commissions, and net gain, net of commissions, from sales of trading assets for the taxable year, with all other components of the receipts factor remaining the same, and any such taxpayer may compute its receipts factor using that

averaging method. Specify that DOR may not require any taxpayer who elected before January 1, 2023, to use the customer billing address method, and who has not revoked that election, to use any other method of determining its receipts factor. Specify that this provision first applies retroactively to taxable years beginning on January 1, 2022. Estimate a reduction in income and franchise tax revenues of \$3,500,000 annually, beginning in 2023-24.

5. *Tax Law Change Interactive Effects (LFB Summary Page 204, #21)*. Estimate a minimal change to state income and franchise tax revenues to reflect the interactive effects of the proposed tax changes under this motion.

Sales and Use Tax

6. *Sales Tax Retailer's Discount*. Increase the sales tax retailer's discount rate from 0.5% to 0.75%, and increase the maximum discount a retailer may claim per reporting period from \$1,000 to \$8,000. Specify that these changes would first apply to sales and use taxes payable on the first day of the third month beginning after publication of the bill. Estimate a reduction in sales tax collections of \$15,500,000 in 2023-24 and \$21,100,000 in 2024-25.

Excise Taxes and Other Taxes

7. *Cigarette Tax Stamp Discount Rate*. Increase the discount rate that cigarette manufacturers and distributors receive on total cigarette tax stamp purchases as compensation for their administrative costs from 0.8% to 1.25%. Specify that the increased rate would first apply to cigarette tax stamps purchased on the first day of the third month beginning after publication of the bill. Estimate a decrease in cigarette tax revenues of \$1,400,000 in 2023-24 and \$1,800,000 in 2024-25.

General Fund Tax Transfers

8. *Current Law General Fund Transfer to Transportation Fund*. Estimate total general fund taxes at \$19,244,800,000 in 2023-24 and \$20,680,000,000 in 2024-25. Estimate the current law transfer of 0.25% of estimated general fund taxes from the general fund to the transportation fund at \$48,112,000 in 2023-24 and \$51,700,000 in 2024-25, which is lower than amounts included in Motion #104 by \$5,372,500 in 2023-24 and \$3,673,800 in 2024-25, due to Committee actions affecting general fund tax collections. Estimate a corresponding decrease of \$5,372,500 SEG-Rev in 2023-24 and \$3,673,800 SEG-Rev in 2024-25 to the transportation fund.

9. *Transfer to the Local Government Fund (LGF)*. Estimate sales and use taxes under the bill at \$7,816,900,000 in 2024-25. Reduce the GPR transfer to the LGF based on 20% of the sales tax, as estimated under this motion, by \$4,220,000 in 2024-25. Estimate a corresponding decrease of \$4,220,000 SEG-Rev to the LGF in 2024-25.

Refundable Tax Credits and Other Payments

10. *Increase Refundable Portion of the Research Tax Credit*. Expand the partially refundable research tax credit (including the engine and energy efficiency credits), as computed under current

law, to increase the refundable portion from 15% of the credit amount to 25% of the credit amount for taxable years beginning after December 31, 2023. Increase estimated expenditures for refundable research credit claims by \$3,500,000 GPR in 2024-25, with annual expenditures increasing to \$13,800,000 GPR beginning in 2025-26.

11. *Enterprise Zone Credit Reestimate (Paper #396)*. Increase funding under the sum sufficient GPR appropriation for the enterprise zone program by \$525,000 in 2024-25. As a result, estimated total GPR funding for the credit would increase to \$54,100,000 in 2023-24 and \$36,025,000 in 2024-25.

Note:

This motion addresses items described in LFB Papers #360 through #366, #385, #395, and #396. A listing of the fiscal effect of each item in this motion is provided in the table below. Other items previously addressed in other motions, such as sum sufficient estimates adopted under Motion 12, are not shown below. The Attachment shows the estimated distribution of taxpayers with a tax decrease under Item 1.

**FISCAL EFFECT OF MOTION
(Change to Base)**

	<u>2023-24</u>	<u>2024-25</u>	<u>Biennium</u>	<u>Source</u>
Income and Franchise Taxes				
Income Tax Rate Reductions	-\$1,489,300,000	-\$1,421,400,000	-\$2,910,700,000	GPR-Tax
Withholding Table Update	-603,400,000	-	-603,400,000	GPR-Tax
Bank Loan Deduction	-35,900,000	-29,300,000	-65,200,000	GPR-Tax
	-	-130,000	-130,000	SEG (WEDC)
	-	-130,000	-130,000	SEG-Rev
Financial Institution Apportionment	-3,500,000	-3,500,000	-7,000,000	GPR-Tax
Interactive Effects	Minimal	Minimal	Minimal	GPR-Tax
Sales and Use Taxes				
Increase Sales Tax Retailer's Discount	-15,500,000	-21,100,000	-36,600,000	GPR-Tax
Excise Taxes and Other Taxes				
Increase Cigarette Tax Discount	-1,400,000	-1,800,000	-3,200,000	GPR-Tax
General Fund Tax Transfers				
0.25% Tax Transfer to DOT Fund	-5,372,500	-3,673,800	-9,046,300	GPR-Transfer
	-5,372,500	-3,673,800	-9,046,300	SEG-Rev (DOT)
20% Sales Tax Deposit to LGF	-	-4,220,000	-4,220,000	GPR-Transfer
	-	-4,220,000	-4,220,000	SEG-Rev (LGF)
Refundable Tax Credits and Other Payments				
Increase Refundable Research Credit	-	3,500,000	3,500,000	GPR
Enterprise Zone Credit Reestimate	-	<u>525,000</u>	<u>525,000</u>	GPR
Total GPR-Tax	-\$2,149,000,000	-\$1,477,100,000	-\$3,626,100,000	
Total GPR	-	4,025,000	4,025,000	
Total GPR-Transfer	-5,372,500	-7,893,800	-13,266,300	
Total SEG (WEDC)	-	-130,000	-130,000	
Total SEG-Rev (WEDC)	-	-130,000	-130,000	
Total SEG-Rev (DOT)	-5,372,500	-3,673,800	-9,046,300	
Total SEG-Rev (LGF)	-	-4,220,000	-4,220,000	
Net Effect to General Fund	-\$2,143,627,500	-\$1,473,231,200	-\$3,616,858,700	

ATTACHMENT

Item 1: Estimated Distribution of Taxpayers with a Tax Decrease under Proposal to Reduce 3.54% Rate to 3.50%, Reduce 5.30% and 4.65% Rates to 4.40%, and Reduce 7.65% Rate to 6.50%, Tax Year 2023*

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease					Tax Decrease as % of Net Tax	Count of All Returns	% of All Returns in AGI Class
	Count	% of Count	Amount of Tax Decrease	% of Decrease	Average Decrease			
Under \$5,000	32,459	1.4%	\$329,250	<0.1%	\$10	9.6%	471,849	6.9%
5,000 to 10,000	23,642	1.0	520,647	<0.1	22	9.2	209,515	11.3
10,000 to 15,000	29,292	1.3	627,876	<0.1	21	8.1	170,884	17.1
15,000 to 20,000	74,712	3.2	782,901	0.1	10	5.0	150,071	49.8
20,000 to 25,000	108,807	4.7	1,195,286	0.1	11	3.8	149,469	72.8
25,000 to 30,000	127,467	5.5	1,925,345	0.1	15	3.5	154,594	82.5
30,000 to 40,000	283,002	12.2	9,087,431	0.7	32	4.6	303,992	93.1
40,000 to 50,000	268,510	11.6	23,633,241	1.8	88	7.6	274,020	98.0
50,000 to 60,000	220,759	9.5	36,326,183	2.7	165	9.9	224,456	98.4
60,000 to 70,000	171,855	7.4	42,792,445	3.2	249	11.6	174,677	98.4
70,000 to 80,000	138,870	6.0	46,550,773	3.5	335	12.9	141,022	98.5
80,000 to 90,000	112,671	4.9	47,754,379	3.6	424	13.8	114,228	98.6
90,000 to 100,000	96,304	4.2	49,552,124	3.7	515	14.5	97,605	98.7
100,000 to 125,000	192,207	8.3	130,339,067	9.8	678	15.4	194,584	98.8
125,000 to 150,000	133,623	5.8	124,221,583	9.4	930	16.5	135,489	98.6
150,000 to 200,000	143,065	6.2	178,979,069	13.5	1,251	17.1	145,579	98.3
200,000 to 250,000	60,795	2.6	103,461,797	7.8	1,702	17.3	62,063	98.0
250,000 to 300,000	29,848	1.3	64,389,735	4.9	2,157	17.4	30,590	97.6
300,000 to 500,000	43,179	1.9	133,970,838	10.1	3,103	17.3	44,208	97.7
500,000 to 1,000,000	17,795	0.8	109,670,590	8.3	6,163	16.6	18,294	97.3
1,000,000 and over	<u>7,291</u>	<u>0.3</u>	<u>220,811,891</u>	<u>16.6</u>	30,286	16.7	<u>7,620</u>	95.7
Total	2,316,153	100.0%	\$1,326,922,451	100.0%	\$573	15.1%	3,274,809	70.7%

--In tax year 2023, it is estimated that 2,316,153 filers (70.7% of all filers) would receive tax decreases totaling \$1,326.9 million, for an average decrease of \$573. Taxpayers not receiving a decrease would generally be those with no net tax liability under current law.

--Filers with Wisconsin AGI under \$100,000 would represent 72.9% of all filers with a tax decrease, and would receive 19.7% of the estimated decrease. Their estimated average tax decrease would be \$155 in tax year 2023.

--Filers with Wisconsin AGI of \$100,000 or more would represent 27.1% of all filers with a tax decrease, and would receive 80.3% of the estimated decrease. Their estimated average tax decrease would be \$1,698 in tax year 2023.

--On average, filers receiving a tax decrease would experience a 15.1% estimated reduction in their net tax liability relative to current law. In general, this percentage, and the average tax decrease, rise with income.

Based on a simulation of tax year 2023 by the Department of Revenue.

*This distribution does not include the estimated reduction in amounts withheld from nonresident members of pass-through entities (\$22.3 million).