



Legislative Fiscal Bureau

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November 4, 2019

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Updated Information on Tax Year 2019 Individual Income Tax Reductions Under Wisconsin Acts 9 and 10

This memorandum provides updated information for tax year 2019 on the individual income tax rate reductions included in 2019 Wisconsin Acts 9 and 10, which were described in a memorandum from this office dated July 11, 2019. It differs from the previous memorandum because it reflects the Department of Revenue (DOR) determination of the amount of the tax reduction for tax year 2019 required under s. 73.03(71) of the state statutes, as amended by Act 10 and described below.

The Act 10 tax rate reduction is intended to offset the increased sales and use tax collections attributable to remote sellers and marketplace providers. For tax year 2019, the tax rate reduction is based on the sales and use tax collected from remote sellers during the 12-month period from October 1, 2018, to September 30, 2019. Under Act 10, the tax reduction is to be divided into two equal components and targeted as rate reductions to the two bottom tax brackets. State law requires DOR to estimate the amount of additional sales tax collected, determine the amount of the tax rate reductions for the two bottom tax brackets, and certify and report its determinations to the Joint Committee on Finance, as well as the Governor, the Secretary of the Department of Administration (DOA), and the Legislative Audit Bureau (LAB), no later than October 20, 2019. State law also directs LAB to review the DOR determinations and report its findings to the Joint Committee on Finance and the Joint Legislative Audit Committee no later than November 1, 2019. If the LAB review results in different tax rate calculations, the Joint Committee on Finance is charged with determining which tax rates apply and reporting its determination to the Governor, the DOA Secretary, and the DOR Secretary no later than November 10, 2019.

On October 21, 2019, DOR reported that the estimated increase in sales and use tax collections for October 1, 2018, through September 30, 2019, totaled an estimated \$79.2 million. Based on that estimate, the report certifies reductions in the rates for the two lowest income tax brackets from 4.00% to 3.86% and from 5.21% to 5.04% for tax year 2019. Because DOR elected to maintain the

historical standard of expressing tax rates as hundredths of a percent, the tax rate reductions result in an estimated tax decrease that is slightly lower than the estimated additional sales tax collections. On November 1, 2019, LAB reported that DOR's estimate and its tax rate determination, as rounded to the hundredth decimal place, appeared reasonable. As a result, no additional action by the Joint Committee on Finance is required, and the tax rates certified by DOR will take effect for tax year 2019.

The attached table reports the estimated distribution of the tax year 2019 decrease under Act 10 by Wisconsin adjusted gross income category. The total decrease is estimated at \$77.3 million, resulting in an average individual income tax reduction of \$34 for taxpayers receiving a tax decrease. Also, the table reports the estimated distribution of the income tax rate reduction under Act 9, the 2019-21 biennial budget act. Act 9 lowered the rate for the second tax bracket from 5.84% to 5.21%, beginning in tax year 2019. As a result, individual income tax collections will decrease by an estimated \$144.9 million, resulting in an average individual income tax reduction estimated at \$75 among taxpayers receiving a tax decrease. In addition, the attachment displays the combined effects of the two tax reductions. The combined tax rate reductions will decrease individual income tax collections by an estimated \$222.3 million, resulting in an average individual income tax reduction estimated at \$98 among taxpayers receiving a tax decrease.

The following table reports the four marginal tax rates under prior law and the tax rate reductions under Acts 9 and 10 for tax year 2019.

**Change in Individual Income Tax Rates Under 2019 Wisconsin Acts 9 and 10,
Tax Year 2019**

| <u>Tax Rates Under Prior Law</u> | <u>Tax Rate Reductions Under:</u> | | <u>Tax Rates Under Acts 9 and 10</u> |
|--------------------------------------|-----------------------------------|---------------|--|
| | <u>Act 9</u> | <u>Act 10</u> | |
| 4.00% | 0.00% | -0.14% | 3.86% |
| 5.84 | -0.63 | -0.17 | 5.04 |
| 6.27 | 0.00 | 0.00 | 6.27 |
| 7.65 | 0.00 | 0.00 | 7.65 |

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Attachment

ATTACHMENT

Tax Year 2019 Distribution of Income Tax Rate Reductions Under Combined Effects of Acts 9 and 10 and DOR Tax Rate Certification

| Wisconsin Adjusted Gross Income | 2019 Wisconsin Act 9 | | | | | | 2019 Wisconsin Act 10, Under DOR Tax Rate Certification | | | | | | | |
|---------------------------------|------------------------------------|---------------|------------------------|---------------|------------------|----------------------|---|------------------------------------|---------------|------------------------|---------------|------------------|----------------------|-------------------------------|
| | Taxpayers Receiving a Tax Decrease | | | | | Count of All Returns | % of All Returns in AGI Class | Taxpayers Receiving a Tax Decrease | | | | | Count of All Returns | % of All Returns in AGI Class |
| | Count | % of Count | Amount of Tax Decrease | % of Decrease | Average Decrease | | | Count | % of Count | Amount of Tax Decrease | % of Decrease | Average Decrease | | |
| Under \$5,000 | 16,804 | 0.9% | -\$49,096 | < 0.1% | -\$3 | 477,223 | 3.5% | 30,462 | 1.4% | -\$67,665 | 0.1% | -\$2 | 477,223 | 6.4% |
| 5,000 to 10,000 | 13,060 | 0.7 | -96,212 | 0.1 | -7 | 222,265 | 5.9 | 25,891 | 1.2 | -126,094 | 0.2 | -5 | 222,265 | 11.6 |
| 10,000 to 15,000 | 12,017 | 0.6 | -150,767 | 0.1 | -13 | 188,609 | 6.4 | 66,297 | 3.0 | -294,237 | 0.4 | -4 | 188,609 | 35.2 |
| 15,000 to 20,000 | 12,249 | 0.6 | -254,003 | 0.2 | -21 | 174,497 | 7.0 | 112,697 | 5.0 | -1,013,243 | 1.3 | -9 | 174,497 | 64.6 |
| 20,000 to 25,000 | 62,245 | 3.2 | -816,686 | 0.6 | -13 | 173,606 | 35.9 | 142,750 | 6.4 | -2,226,900 | 2.9 | -16 | 173,606 | 82.2 |
| 25,000 to 30,000 | 134,135 | 6.9 | -4,259,487 | 2.9 | -32 | 172,017 | 78.0 | 150,964 | 6.7 | -3,450,935 | 4.5 | -23 | 172,017 | 87.8 |
| 30,000 to 40,000 | 273,357 | 14.1 | -16,750,910 | 11.6 | -61 | 314,892 | 86.8 | 305,658 | 13.6 | -9,639,943 | 12.5 | -32 | 314,892 | 97.1 |
| 40,000 to 50,000 | 252,891 | 13.0 | -18,129,245 | 12.5 | -72 | 254,402 | 99.4 | 250,681 | 11.2 | -9,317,584 | 12.0 | -37 | 254,402 | 98.5 |
| 50,000 to 60,000 | 196,903 | 10.1 | -16,125,442 | 11.1 | -82 | 197,772 | 99.6 | 195,162 | 8.7 | -7,902,640 | 10.2 | -40 | 197,772 | 98.7 |
| 60,000 to 70,000 | 155,587 | 8.0 | -13,208,937 | 9.1 | -85 | 156,102 | 99.7 | 154,430 | 6.9 | -6,476,888 | 8.4 | -42 | 156,102 | 98.9 |
| 70,000 to 80,000 | 125,107 | 6.4 | -10,997,592 | 7.6 | -88 | 125,451 | 99.7 | 124,282 | 5.5 | -5,391,805 | 7.0 | -43 | 125,451 | 99.1 |
| 80,000 to 90,000 | 106,727 | 5.5 | -9,641,835 | 6.7 | -90 | 106,975 | 99.8 | 106,215 | 4.7 | -4,730,606 | 6.1 | -45 | 106,975 | 99.3 |
| 90,000 to 100,000 | 91,968 | 4.7 | -8,479,797 | 5.9 | -92 | 92,156 | 99.8 | 91,603 | 4.1 | -4,160,558 | 5.4 | -45 | 92,156 | 99.4 |
| 100,000 to 125,000 | 170,919 | 8.8 | -16,050,370 | 11.1 | -94 | 171,203 | 99.8 | 170,260 | 7.6 | -7,873,278 | 10.2 | -46 | 171,203 | 99.4 |
| 125,000 to 150,000 | 103,049 | 5.3 | -9,782,750 | 6.7 | -95 | 103,212 | 99.8 | 102,629 | 4.6 | -4,795,824 | 6.2 | -47 | 103,212 | 99.4 |
| 150,000 to 200,000 | 98,835 | 5.1 | -9,400,486 | 6.5 | -95 | 99,020 | 99.8 | 98,554 | 4.4 | -4,603,790 | 6.0 | -47 | 99,020 | 99.5 |
| 200,000 to 250,000 | 41,104 | 2.1 | -3,888,033 | 2.7 | -95 | 41,218 | 99.7 | 40,968 | 1.8 | -1,904,776 | 2.5 | -46 | 41,218 | 99.4 |
| 250,000 to 300,000 | 20,619 | 1.1 | -1,945,281 | 1.3 | -94 | 20,728 | 99.5 | 20,566 | 0.9 | -953,643 | 1.2 | -46 | 20,728 | 99.2 |
| 300,000 to 500,000 | 30,134 | 1.6 | -2,824,964 | 1.9 | -94 | 30,306 | 99.4 | 30,072 | 1.3 | -1,388,287 | 1.8 | -46 | 30,306 | 99.2 |
| 500,000 to 1,000,000 | 15,241 | 0.8 | -1,416,323 | 1.0 | -93 | 15,394 | 99.0 | 15,226 | 0.7 | -696,990 | 0.9 | -46 | 15,394 | 98.9 |
| 1,000,000 and over | <u>7,433</u> | <u>0.4</u> | <u>-672,449</u> | <u>0.5</u> | -90 | <u>7,686</u> | 96.7 | <u>7,435</u> | <u>0.3</u> | <u>-330,903</u> | <u>0.4</u> | -45 | <u>7,686</u> | 96.7 |
| Total | 1,940,384 | 100.0% | -\$144,940,665 | 100.0% | -\$75 | 3,144,734 | 61.7% | 2,242,802 | 100.0% | -\$77,346,589 | 100.0% | -\$34 | 3,144,734 | 71.3% |

| Wisconsin Adjusted Gross Income | Combined Effects, Acts 9 and 10 | | | | | | |
|---------------------------------|------------------------------------|---------------|------------------------|---------------|------------------|----------------------|-------------------------------|
| | Taxpayers Receiving a Tax Decrease | | | | | Count of All Returns | % of All Returns in AGI Class |
| | Count | % of Count | Amount of Tax Decrease | % of Decrease | Average Decrease | | |
| Under \$5,000 | 34,323 | 1.5% | -\$116,762 | 0.1% | -\$3 | 477,223 | 7.2% |
| 5,000 to 10,000 | 26,717 | 1.2 | -222,306 | 0.1 | -8 | 222,265 | 12.0 |
| 10,000 to 15,000 | 66,705 | 3.0 | -445,005 | 0.2 | -7 | 188,609 | 35.4 |
| 15,000 to 20,000 | 112,945 | 5.0 | -1,267,246 | 0.6 | -11 | 174,497 | 64.7 |
| 20,000 to 25,000 | 143,108 | 6.3 | -3,043,587 | 1.4 | -21 | 173,606 | 82.4 |
| 25,000 to 30,000 | 152,127 | 6.7 | -7,710,422 | 3.5 | -51 | 172,017 | 88.4 |
| 30,000 to 40,000 | 308,093 | 13.6 | -26,390,852 | 11.9 | -86 | 314,892 | 97.8 |
| 40,000 to 50,000 | 252,913 | 11.2 | -27,446,829 | 12.3 | -109 | 254,402 | 99.4 |
| 50,000 to 60,000 | 196,922 | 8.7 | -24,028,082 | 10.8 | -122 | 197,772 | 99.6 |
| 60,000 to 70,000 | 155,599 | 6.9 | -19,685,826 | 8.9 | -127 | 156,102 | 99.7 |
| 70,000 to 80,000 | 125,111 | 5.5 | -16,389,397 | 7.4 | -131 | 125,451 | 99.7 |
| 80,000 to 90,000 | 106,738 | 4.7 | -14,372,441 | 6.5 | -135 | 106,975 | 99.8 |
| 90,000 to 100,000 | 91,973 | 4.1 | -12,640,355 | 5.7 | -137 | 92,156 | 99.8 |
| 100,000 to 125,000 | 170,933 | 7.6 | -23,923,648 | 10.8 | -140 | 171,203 | 99.8 |
| 125,000 to 150,000 | 103,053 | 4.6 | -14,578,574 | 6.6 | -141 | 103,212 | 99.8 |
| 150,000 to 200,000 | 98,843 | 4.4 | -14,004,276 | 6.3 | -142 | 99,020 | 99.8 |
| 200,000 to 250,000 | 41,107 | 1.8 | -5,792,809 | 2.6 | -141 | 41,218 | 99.7 |
| 250,000 to 300,000 | 20,622 | 0.9 | -2,898,925 | 1.3 | -141 | 20,728 | 99.5 |
| 300,000 to 500,000 | 30,138 | 1.3 | -4,213,252 | 1.9 | -140 | 30,306 | 99.4 |
| 500,000 to 1,000,000 | 15,244 | 0.7 | -2,113,313 | 1.0 | -139 | 15,394 | 99.0 |
| 1,000,000 and over | <u>7,442</u> | <u>0.3</u> | <u>-1,003,352</u> | <u>0.5</u> | -135 | <u>7,686</u> | 96.8 |
| Total | 2,260,656 | 100.0% | -\$222,287,259 | 100.0% | -\$98 | 3,144,734 | 71.9% |

- Under 2019 Wisconsin Act 9, an estimated 1,940,384 taxpayers, or 61.7% of all tax filers, in 2019 will receive a tax decrease. The decrease will total an estimated \$144.9 million and average \$75 per taxpayer.

- Under the DOR certification of the 2019 Wisconsin Act 10 tax rate reduction, an estimated 2,242,802 taxpayers, or 71.3% of all tax filers, will receive a tax decrease. The tax decrease will total an estimated \$77.3 million and average \$34 per taxpayer.

- Under the combined effects of Acts 9 and 10, an estimated 2,260,656 taxpayers, or 71.9% of all tax filers, will receive a tax decrease. The decrease will total an estimated \$222.3 million and average \$98 per taxpayer.

- Under the tax rates in effect prior to Acts 9 and 10, taxpayers with Wisconsin AGI below \$100,000 comprise 78.6% of the filers with a tax liability and bear 33.6% of the net tax. Under the combined tax rate reductions, they will comprise 78.4% of the taxpayers with a tax decrease, and they will receive 69.2% of the total decrease. Their tax decrease will average \$87.

- Under the tax rates in effect prior to Acts 9 and 10, taxpayers with Wisconsin AGI over \$100,000 comprise 21.4% of the filers with a tax liability and bear 66.4% of the net tax. Under the combined tax rate reductions, they will comprise 21.6% of the taxpayers with a tax decrease, and they will receive 30.8% of the total decrease. Their tax decrease will average \$141.

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