



Legislative Fiscal Bureau

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February 14, 2020

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 910/Senate Bill 821: Reducing the Individual Income Tax, Providing a Property Tax Exemption, and Reducing State General Obligation Debt

Assembly Bill 910 (AB 910) and Senate Bill 821 (SB 821) are companion bills that would reduce the individual income tax, provide a property tax exemption, and reduce the level of state general obligation debt. Both AB 910 and SB 821 were introduced on February 14, 2020, and were referred to the Joint Committee on Finance.

BACKGROUND

On January 23, 2020, this office reported on general fund revenues and expenditures for the remainder of the 2019-21 biennium. Due to strength in tax collections and economic forecasts, that report indicated that the net general fund balance at the close of the biennium (June 30, 2021) is estimated to be \$620.2 million. In addition, the report projected that, under provisions of current law, transfer to the budget stabilization fund would increase the amount in that fund to \$1,080 million at the end of the biennium. The provisions AB 910 and SB 821 would utilize a portion of the projected surplus to reduce the individual income tax, exempt a category of personal property from taxation, and pay off \$100 million of general fund supported borrowing.

SUMMARY OF AB 910 AND SB 821

Individual Income Tax Reductions -- Sliding Scale 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 adjusted gross income (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. The formula factors are indexed for inflation and change each year. The following table displays the deduction amounts by filing status for tax year 2020.

For tax year 2020, a maximum deduction of \$20,470 will be extended to married joint filers with Wisconsin AGI less than \$23,000. Single and head-of-household filers with Wisconsin AGI less than \$15,940 will be able to claim maximum deductions of \$11,050 and \$14,280, respectively. As Wisconsin AGI increases, each of the deduction amounts phases down, until it equals \$0 when Wisconsin AGI reaches \$126,499 for married joint filers and \$108,023 for single and head-of-household filers. The deduction phaseouts are based on statutory percentages for each filing type, except the percentage for head-of-household filers changes to the percentage for single filers when Wisconsin AGI exceeds a certain level. The deduction and income phaseout amounts for married separate filers are set equal to 47.5% of the amounts for married joint filers. The following table displays the estimated deduction amounts by filing status for tax year 2020.

**Sliding Scale Standard Deduction by Filing Status for Tax Year 2020
Under Current Law**

<u>Filing Status</u>	<u>Wisconsin AGI</u>	<u>Standard Deduction</u>
Married Joint	Less than \$23,000	\$20,470
	\$23,000 to \$126,499	\$20,470 - 19.778% (WAGI - \$23,000)
	Greater than \$126,499	\$0
Single	Less than \$15,940	\$11,050
	\$15,940 to \$108,023	\$11,050 - 12.000% (WAGI - \$15,940)
	Greater than \$108,023	\$0
Head-of-Household	Less than \$15,940	\$14,280
	\$15,940 to \$46,658	\$14,280 - 22.515% (WAGI - \$15,940)
	Greater than \$46,658	Single Standard Deduction
Married Separate	Less than \$10,920	\$9,720
	\$10,920 to \$60,066	\$9,720 - 19.778% (WAGI - \$10,920)
	Greater than \$60,066	\$0

The bills would increase the maximum deduction by 13.2% for each filer type, increase the income levels for beginning the deduction phaseout by 11.4%, and modify each of the phaseout percentages so that they are closer together beginning in tax year 2020. The deduction would be structured as follows:

**Sliding Scale Standard Deduction by Filing Status for Tax Year 2020
Under AB 910/SB 821**

<u>Filing Status</u>	<u>Wisconsin AGI</u>	<u>Standard Deduction</u>
Married Joint	Less than \$25,610	\$23,170
	\$25,610 to \$144,669	\$23,170 - 19.461% (WAGI - \$25,610)
	Greater than \$144,669	\$0
Single	Less than \$17,760	\$12,510
	\$17,760 to \$120,360	\$12,510 - 12.193% (WAGI - \$17,760)
	Greater than \$120,360	\$0
Head-of-Household	Less than \$17,760	\$16,170
	\$17,760 to \$54,503	\$16,170 - 22.154% (WAGI - \$17,760)
	Greater than \$54,503	Single Standard Deduction
Married Separate	Less than \$12,160	\$11,000
	\$12,160 to \$68,683	\$11,000 - 19.461% (WAGI - \$12,160)
	Greater than \$68,683	\$0

The bills would reduce individual income tax collections by an estimated \$214.5 million in tax year 2020. For taxpayers that would experience a tax decrease, the average tax reduction would be \$106 per filer. In addition to the tax year 2020 amount, changes to estimated payments by individuals would result in a one-time estimated revenue reduction of \$33.2 million in 2020-21, resulting in a total revenue reduction for 2020-21 of \$247.7 million. The total revenue reduction for 2021-22 and annually thereafter is estimated at \$224.3 million. Three tables on the effects of the increase are attached to this memorandum, providing distributional information for all taxpayers, married taxpayers filing jointly, and all other taxpayers who are estimated to receive a tax decrease in tax year 2020.

The preceding amounts include both direct and indirect effects resulting from the bills. The bills' direct effect is reduced individual income tax liabilities for taxpayers claiming higher standard deductions. The bills' indirect effect results from the interaction between the standard deduction and the state itemized deduction credit. Because the calculation of the credit is based, in part, on the claimant's standard deduction, a higher standard deduction will result in a decrease in tax credit claims. For tax year 2020, itemized deduction credits are estimated to decrease by about \$50 million.

The bills would result in an estimated 2,030,662 tax filers, or 64.1% of all filers, experiencing an income tax decrease in tax year 2020. Married joint filers comprise 787,786 of the estimate, and the remaining 1,242,876 taxpayers are other filing types. Among taxpayers experiencing a tax decrease, an average tax decrease of \$106 is estimated, or 4.85% of those taxpayers' net tax. A higher average tax decrease is estimated for married joint filers (\$145), but they would experience a somewhat lower average percentage decrease in net tax (4.54%). The converse is estimated for other filing types -- a lower average tax decrease (\$81) but a higher average percentage decrease in net tax (5.27%).

The tax reduction is targeted to taxpayers with incomes below the expanded income phaseout levels of \$144,669 for married joint filers and \$120,360 for single and head-of-household filers. A small number of filers with higher incomes would also experience tax decreases, but they total 82 filers with decreases of about \$7,025, or about \$86 per filer. These are part-year residents or nonresidents who calculate their standard deduction based on federal AGI, rather than Wisconsin AGI.

There are also an estimated 4,700 taxpayers who would experience tax increases, but those increases total only \$50,000 and average only \$11 per taxpayer. An estimated 2,000 are married joint filers and 2,700 are other filer types. These are taxpayers who claim the itemized deduction credit who would experience a decrease in their credit that exceeds the tax decrease resulting from the expanded standard deduction. The credit equals 5% of certain federal itemized deductions in excess of the state standard deduction. If all, or most, of a credit claimant's income is taxed at the rates for the two bottom tax brackets, estimated at 3.74% and 4.91% for tax year 2020, the difference between the credit rate and the taxpayer's effective tax rate could result in a tax increase.

Tax filers without a tax change would include those without a tax liability and those with Wisconsin AGI above the proposed phaseout level for the deduction.

Personal Property Tax Exemption -- Machinery, Tools, and Patterns of Manufacturers

The bills would exempt machinery, tools, and patterns assessed as personal property of manufacturers from the property tax effective with property assessed as of January 1, 2020 [the 2020(21) property tax levy]. The existing state aid program administered by DOR to make aid payments to each local taxing jurisdiction with exempt personal property under current law would be expanded to include amounts equal to the property taxes levied by each taxing jurisdiction on the newly-exempt property in 2019(20). The bills specify that payments made to tax incremental financing districts would be made to the overlying municipality after the district is terminated. The estimated cost of the increased aid payments to local taxing jurisdictions, including tax incremental financing districts, would be \$44,700,000 annually, beginning in 2020-21 and would be paid from the existing GPR sum-sufficient appropriation. The payment would be included in the calculation of county and municipal levy limits, school revenue limits, and technical college district revenue limits.

Budget Stabilization Fund and Debt Reduction

Under current law, if actual general fund tax revenues in a given fiscal year exceed projected revenues as estimated in the general fund condition statement from the biennial budget act for that biennium, 50% of the additional tax revenues in that fiscal year are required to be transferred to the budget stabilization fund. If the balance in the budget stabilization fund prior to the transfer exceeds 5% of estimated general fund expenditures for that fiscal year, no transfer is made.

The bills would specify that in a year in which actual general fund tax revenues exceed the estimated amount in the budget act, but the amount in the budget stabilization fund exceeds 5% of estimated general fund expenditures at the time the transfer would take place, the Secretary of the Department of Administration would be required to certify to the Building Commission an amount

equal to 50% of the excess tax revenues. In the following fiscal year, the Secretary, in coordination with the Building Commission, would be required to reduce by that certified amount unpaid indebtedness in which general obligation or variable rate debt is paid from general purpose revenue from the appropriate general purpose debt service appropriations.

Additionally, the bills would require that the Secretary of the Department of Administration, in coordination with the Building Commission and from the appropriate general purpose debt service appropriations, reduce unpaid indebtedness in which general obligation or variable rate debt is paid from general purpose revenue by \$100 million in 2020-21.

FISCAL EFFECT

The bills would reduce general fund taxes by \$247.7 million for the 2020-21 biennium, provide \$44.7 million to local governments for the personal property tax exemption, and utilize \$100 million to reduce outstanding GPR supported debt.

Under s. 16.518(3) of the statutes, if actual tax collections exceed the amounts estimated in the state's biennial budget act, one-half of such excess is deposited into the budget stabilization fund. On January 23, 2020, this office prepared a memorandum projecting general fund tax revenues for the remainder of the 2019-21 biennium, and estimated that the amounts in the budget stabilization fund would total \$845.0 million at the end of 2019-20 and \$1,080.0 million at the end of 2020-21. Thus, the estimated effect of the bills on the budget stabilization fund would be a decrease in the estimated stabilization transfer of \$123.8 million in 2020-21. As a result, these amounts would remain in the general fund.

In summary, the bills would leave an estimated net balance in the general fund of \$351.6 million at the end of the biennium and the amount in the budget stabilization fund would be projected to be \$956.2 million.

Prepared by: Rick Olin, Noga Ardon, Christa Pugh and Dave Loppnow
Attachments

ATTACHMENT 1

Distribution of Taxpayers with a Tax Decrease Under AB 910 and SB 821 Proposal to Expand the Sliding Scale Standard Deduction, All Filers, Tax Year 2020

Wisconsin Adjusted Gross Income	Taxpayers with a Decrease						Count of All Returns	% of All Returns In AGI Class
	Count	Percent of Count	Amount of Decrease	Percent of Decrease	Decrease in Net Tax	Average Decrease		
Under \$5,000	14,579	0.72%	-\$100,622	0.05%	-7.65%	-\$7	450,508	3.2%
5,000 to 10,000	14,292	0.70	-258,646	0.12	-8.48	-18	220,347	6.5
10,000 to 15,000	73,410	3.62	-2,716,727	1.27	-35.88	-37	170,914	43.0
15,000 to 20,000	116,622	5.74	-6,399,622	2.98	-25.97	-55	166,720	70.0
20,000 to 25,000	140,777	6.93	-9,379,618	4.37	-19.05	-67	164,923	85.4
25,000 to 30,000	156,289	7.70	-13,823,404	6.44	-16.27	-88	166,905	93.6
30,000 to 40,000	308,583	15.20	-32,176,868	15.00	-11.41	-104	320,235	96.4
40,000 to 50,000	257,826	12.70	-31,102,844	14.49	-8.00	-121	264,579	97.4
50,000 to 60,000	203,845	10.04	-26,672,959	12.43	-6.24	-131	208,085	98.0
60,000 to 70,000	162,548	8.00	-22,415,396	10.45	-5.15	-138	166,085	97.9
70,000 to 80,000	127,191	6.26	-18,532,532	8.64	-4.49	-146	130,956	97.1
80,000 to 90,000	107,545	5.30	-16,015,303	7.46	-3.89	-149	110,401	97.4
90,000 to 100,000	93,486	4.60	-13,451,036	6.27	-3.24	-144	95,701	97.7
100,000 to 125,000	172,957	8.52	-18,292,978	8.52	-1.95	-106	181,083	95.5
125,000 to 150,000	80,630	3.97	-3,235,256	1.51	-0.60	-40	114,112	70.7
150,000 to 200,000	--	--	--	--	--	--	110,014	--
200,000 to 250,000	--	--	--	--	--	--	46,359	--
250,000 to 300,000	--	--	--	--	--	--	23,243	--
300,000 to 500,000	--	--	--	--	--	--	33,505	--
500,000 and over	--	--	--	--	--	--	24,753	--
Total	2,030,662	100.00%	-\$214,580,836	100.00%	-4.85%	-\$106	3,169,428	64.1%

- An estimated 2,030,662, or 64.1% of all tax filers in tax year 2020, would experience tax decreases totaling an estimated \$214.6 million under the bills.

- For all taxpayers with a tax reduction, the average 2020 tax decrease would be \$106. The average tax decrease would increase as income rises, until reaching \$149 for taxpayers in the \$80,000 to \$90,000 Wisconsin AGI class.

- For taxpayers with a tax decrease, the decrease would average 4.85%. On average, taxpayers in the \$10,000 to \$15,000 Wisconsin AGI class would experience the largest percentage decreases (almost 36%).

- Taxpayers with Wisconsin AGI of \$100,000 or less would comprise 87.51% of the taxpayers with a tax decrease and would receive 89.96% of the decrease.

- Taxpayers not experiencing a tax decrease would include those without a tax liability, those with a Wisconsin AGI above the phaseout level for the deduction, and taxpayers with an itemized deduction credit decrease that exceeds their tax decrease attributable to the expanded standard deduction. An estimated 4,700 taxpayers may experience a tax increase estimated at \$50,000, or \$11 per taxpayer. As a result, the net tax reduction for tax year 2020 is estimated at \$214.5 million.

- Data in some cells is suppressed to protect taxpayer confidentiality. These taxpayers comprise a small number of part-year and nonresident filers whose standard deduction is calculated using federal AGI and whose Wisconsin AGI exceeds \$150,000.

Source: Department of Revenue simulation of tax year 2020.

ATTACHMENT 2

Distribution of Taxpayers with a Tax Decrease Under AB 910 and SB 821 Proposal to Expand the Sliding Scale Standard Deduction, Married Joint Filers, Tax Year 2020

Wisconsin Adjusted Gross Income	Taxpayers with a Decrease						Count of All Returns	% of All Returns In AGI Class
	Count	Percent of Count	Amount of Decrease	Percent of Decrease	Decrease in Net Tax	Average Decrease		
Under \$5,000	4,534	0.58%	-\$28,689	0.03%	-5.71%	-\$6	81,752	5.5%
5,000 to 10,000	3,635	0.46	-60,710	0.05	-5.96	-17	29,761	12.2
10,000 to 15,000	2,617	0.33	-79,047	0.07	-6.53	-30	27,023	9.7
15,000 to 20,000	2,359	0.30	-101,102	0.09	-6.99	-43	27,116	8.7
20,000 to 25,000	11,591	1.47	-646,912	0.57	-27.06	-56	28,608	40.5
25,000 to 30,000	26,782	3.40	-2,898,199	2.53	-39.58	-108	33,748	79.4
30,000 to 40,000	69,996	8.89	-8,829,933	7.72	-23.61	-126	75,876	92.3
40,000 to 50,000	72,132	9.16	-11,316,098	9.89	-15.51	-157	75,676	95.3
50,000 to 60,000	73,579	9.34	-14,273,733	12.47	-12.11	-194	75,645	97.3
60,000 to 70,000	75,794	9.62	-14,969,219	13.08	-8.73	-197	77,588	97.7
70,000 to 80,000	74,181	9.42	-14,542,919	12.71	-6.70	-196	75,676	98.0
80,000 to 90,000	72,976	9.26	-13,821,148	12.08	-5.26	-189	74,298	98.2
90,000 to 100,000	70,329	8.93	-12,218,553	10.68	-4.06	-174	71,454	98.4
100,000 to 125,000	146,608	18.61	-17,410,986	15.21	-2.22	-119	148,961	98.4
125,000 to 150,000	80,615	10.23	-3,234,598	2.83	-0.60	-40	99,840	80.7
150,000 to 200,000	--	--	--	--	--	--	97,958	--
200,000 to 250,000	--	--	--	--	--	--	41,146	--
250,000 to 300,000	--	--	--	--	--	--	20,415	--
300,000 to 500,000	--	--	--	--	--	--	29,240	--
500,000 and over	--	--	--	--	--	--	21,117	--
Total	787,786	100.00%	-\$114,437,211	100.00%	-4.54%	-\$145	1,212,898	65.0%

- An estimated 787,786, or 65.0% of married joint filers in tax year 2020, would experience a tax decrease under the bills.
- These taxpayers would experience a decrease estimated at \$114.4 million.
- For married joint taxpayers with a tax reduction, the average 2020 tax decrease would be \$145. The average tax decrease would increase as income rises, until reaching \$197 for taxpayers in the \$60,000 to \$70,000 Wisconsin AGI class.
- For taxpayers with a tax decrease, the decrease would average 4.54%. On average, taxpayers in the \$25,000 to \$30,000 Wisconsin AGI class would experience the largest percentage decreases (almost 40%).
- Taxpayers with Wisconsin AGI of \$100,000 or less would comprise 71.15% of the taxpayers with a tax decrease and would receive 81.95% of the decrease.
- Taxpayers not experiencing a tax decrease would include those without a tax liability, those with a Wisconsin AGI above the phaseout level for the deduction, and taxpayers with an itemized deduction credit decrease that exceeds their tax decrease attributable to the expanded standard deduction. An estimated 2,000 taxpayers may experience a tax increase estimated at \$23,000, or \$12 per taxpayer.
- Data in some cells is suppressed to protect taxpayer confidentiality.

Source: Department of Revenue simulation of tax year 2020.

ATTACHMENT 3

Distribution of Taxpayers with a Tax Decrease Under AB 910 and SB 821 Proposal to Expand the Sliding Scale Standard Deduction, Other Filers, Tax Year 2020

Wisconsin Adjusted Gross Income	Taxpayers with a Decrease						Count of All Returns	% of All Returns In AGI Class
	Count	Percent of Count	Amount of Decrease	Percent of Decrease	Decrease in Net Tax	Average Decrease		
Under \$5,000	10,044	0.81%	-\$71,933	0.07%	-8.86%	-\$7	368,756	2.7%
5,000 to 10,000	10,657	0.86	-197,936	0.20	-9.75	-19	190,586	5.6
10,000 to 15,000	70,793	5.70	-2,637,681	2.63	-41.45	-37	143,891	49.2
15,000 to 20,000	114,263	9.19	-6,298,520	6.29	-27.15	-55	139,605	81.8
20,000 to 25,000	129,186	10.39	-8,732,707	8.72	-18.64	-68	136,315	94.8
25,000 to 30,000	129,507	10.42	-10,925,205	10.91	-14.07	-84	133,157	97.3
30,000 to 40,000	238,587	19.20	-23,346,935	23.31	-9.55	-98	244,359	97.6
40,000 to 50,000	185,694	14.94	-19,786,746	19.76	-6.27	-107	188,903	98.3
50,000 to 60,000	130,266	10.48	-12,399,226	12.38	-4.00	-95	132,440	98.4
60,000 to 70,000	86,754	6.98	-7,446,177	7.44	-2.82	-86	88,497	98.0
70,000 to 80,000	53,010	4.27	-3,989,613	3.98	-2.04	-75	55,280	95.9
80,000 to 90,000	34,569	2.78	-2,194,155	2.19	-1.47	-63	36,104	95.7
90,000 to 100,000	23,157	1.86	-1,232,483	1.23	-1.08	-53	24,247	95.5
100,000 to 125,000	26,350	2.12	-881,992	0.88	-0.58	-33	32,122	82.0
125,000 to 150,000	15	< 0.01	-658	< 0.01	-0.58	-44	14,272	0.1
150,000 to 200,000	--	--	--	--	--	--	12,057	--
200,000 to 250,000	--	--	--	--	--	--	5,212	--
250,000 to 300,000	--	--	--	--	--	--	2,828	--
300,000 to 500,000	--	--	--	--	--	--	4,265	--
500,000 and over	--	--	--	--	--	--	3,636	--
Total	1,242,876	100.00%	-\$100,143,625	100.00%	-5.27%	-\$81	1,956,530	63.5%

- An estimated 1,242,876, or 63.5% of all tax filers in tax year 2020, would experience a tax decrease under the bills.
- These taxpayers would experience a decrease estimated at \$100.1 million.
- For all taxpayers with a tax reduction, the average 2020 tax decrease would be \$81. The average tax decrease would increase as income rises, until reaching \$107 for taxpayers in the \$40,000 to \$50,000 Wisconsin AGI class.
- For taxpayers with a tax decrease, the decrease would average 5.27%. On average, taxpayers in the \$10,000 to \$15,000 Wisconsin AGI class would experience the largest percentage decreases (over 41%).
- Taxpayers with Wisconsin AGI of \$100,000 or less would comprise 97.88% of the taxpayers with a tax decrease and would receive 99.12% of the decrease.
- Taxpayers not experiencing a tax decrease would include those without a tax liability, those with a Wisconsin AGI above the phaseout level for the deduction, and taxpayers with an itemized deduction credit decrease that exceeds their tax decrease attributable to the expanded standard deduction. An estimated 2,700 taxpayers may experience a tax increase estimated at \$27,000, or \$10 per taxpayer.
- Data in some cells is suppressed to protect taxpayer confidentiality.

Source: Department of Revenue simulation of tax year 2020.