



Legislative Fiscal Bureau

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October 30, 2020

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Tax Year 2020 Individual Income Tax Reductions Under Wisconsin Acts 9 and 10

This memorandum provides information for tax year 2020 on the individual income tax rate reductions included in 2019 Wisconsin Acts 9 and 10. Under 2019 Act 9 (the 2019-21 budget), the tax rate for the second tax bracket was lowered from 5.84% to 5.21% beginning in tax year 2019.

Under 2019 Act 10, tax rates were to be further reduced, beginning in tax year 2020, to offset the increased sales and use tax collections attributable to remote sellers and marketplace providers. For tax year 2020, the tax rate reduction is based on the sales and use tax collected from remote sellers during the 12-month period from October 1, 2019, to September 30, 2020. 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, 2020. 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, 2020. 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, 2020.

On October 20, 2020, DOR reported that the estimated increase in sales and use tax collections for October 1, 2019, through September 30, 2020, totaled \$257.3 million. Based on that estimate, the report certifies reductions in the rates for the two lowest income tax brackets from 4.00% to 3.54% and from 5.21% to 4.65% for tax year 2020 and thereafter. Because tax rates are expressed 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 October 30, 2020, LAB reported that DOR's estimate and its tax rate determination 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 2020.

The attached table displays the estimated distribution of the tax year 2020 decrease under Acts 9 and 10 by Wisconsin adjusted gross income category. Act 9 lowered the rate for the second bracket from 5.84% to 5.21% beginning in tax year 2019. As a result, individual income tax collections will decrease by an estimated \$144.8 million in tax year 2020 under Act 9, producing an average individual income tax reduction estimated at \$76 for taxpayers receiving a tax decrease. The table also shows the estimated distribution of the tax year 2020 decrease under Act 10. The decrease is estimated at \$256.4 million, resulting in an average individual income tax reduction of \$113. 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 \$401.1 million, resulting in an average individual income tax reduction estimated at \$177.

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 2020.

**Change in Individual Income Tax Rates Under 2019 Wisconsin Acts 9 and 10,
Tax Year 2020 and Thereafter**

<u>Tax Rates Under Prior Law</u>	<u>Tax Rate Reductions Under:</u>		<u>Tax Rates 2020</u>
	<u>Act 9</u>	<u>Act 10</u>	
4.00%	0.00%	-0.46%	3.54%
5.84	-0.63	-0.56	4.65
6.27	0.00	0.00	6.27
7.65	0.00	0.00	7.65

BL/DS/lb
Attachment

ATTACHMENT

Tax Year 2020 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	17,034	0.9%	-\$50,148	<0.1%	-\$3	465,906	3.7%	38,044	1.7%	-\$225,746	0.1%	-\$6	465,906	8.2%
5,000 to 10,000	14,096	0.7	-106,280	0.1	-8	230,677	6.1	30,289	1.3	-460,419	0.2	-15	230,677	13.1
10,000 to 15,000	12,302	0.6	-158,852	0.1	-13	195,045	6.3	74,837	3.3	-1,016,736	0.4	-14	195,045	38.4
15,000 to 20,000	12,298	0.6	-253,640	0.2	-21	180,462	6.8	113,644	5.0	-3,226,462	1.3	-28	180,462	63.0
20,000 to 25,000	54,888	2.9	-726,691	0.5	-13	183,267	29.9	147,644	6.5	-7,437,780	2.9	-50	183,267	80.6
25,000 to 30,000	139,823	7.3	-4,220,015	2.9	-30	183,799	76.1	159,518	7.0	-11,867,707	4.6	-74	183,799	86.8
30,000 to 40,000	284,389	14.8	-17,597,501	12.2	-62	334,681	85.0	323,150	14.2	-33,566,430	13.1	-104	334,681	96.6
40,000 to 50,000	257,311	13.4	-18,475,765	12.8	-72	261,398	98.4	257,009	11.3	-31,646,246	12.3	-123	261,398	98.3
50,000 to 60,000	195,629	10.2	-16,422,668	11.3	-84	198,317	98.6	195,367	8.6	-26,548,888	10.4	-136	198,317	98.5
60,000 to 70,000	153,197	8.0	-13,371,383	9.2	-87	154,966	98.9	153,012	6.7	-21,621,950	8.4	-141	154,966	98.7
70,000 to 80,000	124,099	6.5	-11,218,895	7.7	-90	125,234	99.1	123,939	5.5	-18,143,144	7.1	-146	125,234	99.0
80,000 to 90,000	105,721	5.5	-9,808,871	6.8	-93	106,511	99.3	105,615	4.7	-15,863,506	6.2	-150	106,511	99.2
90,000 to 100,000	89,937	4.7	-8,497,014	5.9	-94	90,559	99.3	89,868	4.0	-13,746,389	5.4	-153	90,559	99.2
100,000 to 125,000	165,289	8.6	-15,856,378	11.0	-96	166,334	99.4	165,104	7.3	-25,640,815	10.0	-155	166,334	99.3
125,000 to 150,000	95,763	5.0	-9,257,625	6.4	-97	96,433	99.3	95,657	4.2	-14,966,064	5.8	-156	96,433	99.2
150,000 to 200,000	90,746	4.7	-8,775,309	6.1	-97	91,753	98.9	90,651	4.0	-14,190,742	5.5	-157	91,753	98.8
200,000 to 250,000	37,065	1.9	-3,560,971	2.5	-96	37,635	98.5	37,034	1.6	-5,761,901	2.2	-156	37,635	98.4
250,000 to 300,000	19,199	1.0	-1,837,887	1.3	-96	19,509	98.4	19,176	0.8	-2,975,267	1.2	-155	19,509	98.3
300,000 to 500,000	28,406	1.5	-2,708,536	1.9	-95	28,954	98.1	28,384	1.3	-4,385,021	1.7	-154	28,954	98.0
500,000 to 1,000,000	13,923	0.7	-1,310,342	0.9	-94	14,278	97.5	13,925	0.6	-2,121,419	0.8	-152	14,278	97.5
1,000,000 and over	6,306	0.3	-579,852	0.4	-92	6,623	95.2	6,308	0.3	-938,797	0.4	-149	6,623	95.2
Total	1,917,421	100.0%	-\$144,794,623	100.0%	-\$76	3,172,341	60.4%	2,268,175	100.0%	-\$256,351,429	100.0%	-\$113	3,172,341	71.5%

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	39,175	1.7%	-\$275,894	0.1%	-\$7	465,906	8.4%
5,000 to 10,000	30,466	1.3	-566,699	0.1	-19	230,677	13.2
10,000 to 15,000	74,923	3.3	-1,175,588	0.3	-16	195,045	38.4
15,000 to 20,000	113,695	5.0	-3,480,102	0.9	-31	180,462	63.0
20,000 to 25,000	147,697	6.5	-8,164,471	2.0	-55	183,267	80.6
25,000 to 30,000	159,640	7.0	-16,087,722	4.0	-101	183,799	86.9
30,000 to 40,000	323,572	14.2	-51,163,931	12.8	-158	334,681	96.7
40,000 to 50,000	257,366	11.3	-50,122,011	12.5	-195	261,398	98.5
50,000 to 60,000	195,654	8.6	-42,971,556	10.7	-220	198,317	98.7
60,000 to 70,000	153,223	6.7	-34,993,333	8.7	-228	154,966	98.9
70,000 to 80,000	124,111	5.5	-29,362,039	7.3	-237	125,234	99.1
80,000 to 90,000	105,734	4.7	-25,672,377	6.4	-243	106,511	99.3
90,000 to 100,000	89,946	4.0	-22,243,403	5.5	-247	90,559	99.3
100,000 to 125,000	165,303	7.3	-41,497,193	10.3	-251	166,334	99.4
125,000 to 150,000	95,779	4.2	-24,223,689	6.0	-253	96,433	99.3
150,000 to 200,000	90,762	4.0	-22,966,051	5.7	-253	91,753	98.9
200,000 to 250,000	37,075	1.6	-9,322,872	2.3	-251	37,635	98.5
250,000 to 300,000	19,203	0.8	-4,813,154	1.2	-251	19,509	98.4
300,000 to 500,000	28,411	1.3	-7,093,557	1.8	-250	28,954	98.1
500,000 to 1,000,000	13,934	0.6	-3,431,761	0.9	-246	14,278	97.6
1,000,000 and over	6,312	0.3	-1,518,649	0.4	-241	6,623	95.3
Total	2,271,981	100.0%	-\$401,146,052	100.0%	-\$177	3,172,341	71.6%

- Under 2019 Wisconsin Act 9, an estimated 1,917,421 taxpayers, or 60.4% of all tax filers, in 2020 will receive a tax decrease. The decrease will total an estimated \$144.8 million and average \$76 per taxpayer.

- Under the DOR certification of the 2019 Wisconsin Act 10 tax rate reduction, an estimated 2,268,175 taxpayers, or 71.5% of all tax filers, will receive a tax decrease. The tax decrease will total an estimated \$256.4 million and average \$113 per taxpayer.

- Under the combined effects of Acts 9 and 10, an estimated 2,271,981 taxpayers, or 71.6% of all tax filers, will receive a tax decrease. The decrease will total an estimated \$401.1 million and average \$177 per taxpayer.

- Under the tax rates in effect prior to Acts 9 and 10, taxpayers with Wisconsin AGI below \$100,000 comprise 80.0% of the filers with a tax liability and bear 35.2% of the net tax. Under the combined tax rate reductions, they will comprise 79.9% of the taxpayers with a tax decrease and receive 71.4% of the total decrease. Their tax decrease will average \$158.

- Under the tax rates in effect prior to Acts 9 and 10, taxpayers with Wisconsin AGI over \$100,000 comprise 20.0% of the filers with a tax liability and bear 64.8% of the net tax. Under the combined tax rate reductions, they will comprise 20.1% of the taxpayers with a tax decrease and receive 28.6% of the total decrease. Their tax decrease will average \$251.

Based on a simulation of tax year 2020 by the Wisconsin Department of Revenue.