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State of Wisconsin

January 29, 2025

Senator Howard Marklein, Senate Chair
Representative Mark Born, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator Marklein and Representative Born:

Annually, this office prepares general fund revenue and expenditure projections for the Legislature.

In odd-numbered years, our report includes estimated general fund revenues and expenditures for the current fiscal year and tax collection projections for each year of the next biennium. This report presents the conclusions of our analysis.

Comparison with the Administration's November 20, 2024, Report

On November 20, 2024, the Departments of Administration and Revenue submitted a report to the Governor and Legislature that identified general fund revenue and expenditure projections for the 2024-25 fiscal year and the 2025-27 biennium. That report, required by statute, identifies the magnitude of state agency biennial budget requests and presents a projection of general fund tax collections.

Our analysis indicates that for the three-year period, aggregate general fund tax collections will be higher ($894.3 million) than those of the November 20, 2024, report ($239.6 million in 2024-25, $355.2 million in 2025-26, and $299.5 million in 2026-27).

Based upon the November 20 report, the administration's general fund condition statement for 2024-25 reflects a gross ending balance of $3,999.5 million and a net balance (after consideration of the $105.0 million required statutory balance) of $3,894.5 million.

Our analysis indicates a gross balance of $4,267.5 million and a net balance of $4,162.5 million. This is $268.0 million above that of the November 20 report. The 2024-25 general fund condition statement is shown in Table 1.

TABLE 1

Estimated 2024-25 General Fund Condition Statement

	2024-25
Revenues	
Opening Balance, July 1	$4,622,291,000
Taxes	22,252,300,000
Departmental Revenues	
Tribal Gaming	18,620,300
Other	759,413,500
Total Available	$27,652,624,800
Appropriations, Transfers, and Reserves	
Gross Appropriations	$21,046,058,000
Transfers to:	
Building Program	423,300,000
Local Government Fund	1,563,380,000
Innovation Fund	303,000,000
Transportation Fund:	
EV Sales Tax	55,100,000
0.25% Transfer	51,700,000
Compensation Reserves	397,930,000
Less Lapses	-455,336,800
Net Appropriations	$23,385,131,200
Balances	
Gross Balance	$4,267,493,600
Less Required Statutory Balance	-105,000,000
Net Balance, June 30	$4,162,493,600

The factors that make up the $268.0 million difference are as follows. First, based on economic forecasts and tax collections to date, our estimated tax collections for 2024-25 are $239.6 million higher than the projection of the November 20 report. Next, there is an increase in departmental revenues (non-tax receipts deposited into the general fund) of $22.4 million, primarily due to estimated interest earnings because of the higher balance. Finally, net appropriations are projected to be $6.0 million below those of the November 20 report. The additional general fund balance of $268.0 million for 2024-25 is displayed as follows ($239.6 million + $22.4 million + $6.0 million = $268.0 million).

General Fund Revenues

The following sections present information related to general fund tax revenues for 2024-25 and the 2025-27 biennium. This includes a review of the U.S. economy in 2024, a summary of the national economic forecast for 2025 through 2027, and detailed general fund tax revenue estimates for the current fiscal year and the next biennium.

Review of the National Economy in 2024

This office prepared updated revenue estimates for the 2023-25 biennium in January, 2024, based on the January, 2024, S&P Global Market Intelligence (S&P Global) forecast for the U.S. economy. The forecast predicted real gross domestic product (GDP) growth of 1.7% in 2024 and 1.5% in 2025, while growth in nominal GDP was predicted at 3.7% in 2024 and 2025. The forecast assumed that, while the labor market would remain tight in 2024, a period of below-trend growth in economic indicators would allow the economy to achieve sustained 2% inflation by late 2025.

The January, 2024, S&P Global forecast was based on the following assumptions. First, the forecast assumed that the debt ceiling, which was suspended through 2024 by the Fiscal Responsibility Act of 2023 (FRA23), would be raised, and legislation passed, before the end of 2024, avoiding a government shutdown. Second, the forecast assumed that unspent federal stimulus funds from the pandemic era and ongoing funding from the Infrastructure Investment and Jobs Act (IIJA) would mitigate pressures to reduce state and local spending, offsetting the effects of state operating deficits. Third, S&P Global predicted that the Federal Reserve would: (a) reduce its policy rate four times in 2024, beginning in March, to a range of 4.25% to 4.50% by December of 2024, and to a range of 2.50% to 2.75% by early 2026; and (b) continue shrinking its balance sheet by about one third, from a high of $8.97 trillion in April, 2022. Fourth, the forecast assumed that tariffs enacted by the U.S. and China since 2017 would remain in effect. Fifth, S&P Global projected that growth in real, trade-weighted foreign GDP would slow to 1.8% in 2024, then recover slightly to 2.5% by 2026. Foreign consumer price inflation was expected to fall to 2.4% by 2026, while foreign sovereign bond yields were expected to grow to 2.8% in 2024. Finally, the forecast estimated that the price of Brent crude oil would decline to $76 per barrel in 2025, increase to $87 by 2027, then rise at roughly the rate of inflation.

The national economy grew faster than estimated. Real growth in U.S. GDP for 2024 is now estimated at 2.8%, which is 1.1 percentage points higher than previously estimated. S&P Global estimates that nominal U.S. GDP grew 5.3% in 2024, exceeding expectations by 1.6 percentage points.

The Federal Reserve began reducing rates later than expected in the January, 2024, forecast, with the first rate decrease (50 basis points) occurring in September, 2024. Two more decreases (25 basis points in November and December) followed, bringing the federal funds rate to a range of 4.25% to 4.50% at the end of 2024, consistent with the previous forecast. The Federal Reserve maintained its plan to reduce its balance sheet by allowing up to $35 billion worth of agency debt and mortgage-backed securities and $60 billion worth of Treasurys it holds to mature each month, through May, 2024, without reinvesting the proceeds back into the marketplace. Beginning June 1, 2024, the Federal Reserve reduced the amount of Treasurys maturing without reinvestment from $60 billion to $25 billion, but maintained its plan to reduce agency debt and mortgage-backed securities by up to $35 billion each month.

Although the monthly average 30-year fixed rate mortgage rate declined from its 23-year peak of 7.62% in October, 2023, rates remained elevated in 2024, ranging from a high of 7.06% in May, to a low of 6.18% in September. Despite the Federal Reserve reducing interest rates three times (100 basis points) since September, mortgage rates actually increased, ending the year at 6.72% in December. Over the same time period, the 10-year Treasury note yield began to climb, increasing from 3.63% on September 16 to 4.58% by December 31. Sales of existing homes continued to decline in 2024, down 1.1% for the year (compared to the previous estimate of a 1.5% increase). Despite this decline in sales, the average price of existing homes increased 4.4%. S&P Global notes that homeowners are not moving to better locations or homes because of a "lock-in" effect, where the interest rate they pay on their current mortgage is much lower than the current prevailing market interest rate.

In March, 2024, the National Association of Realtors reached a settlement agreement to resolve lawsuits related to commissions paid to buyers' agents. The settlement, which was approved in federal court in November, 2024, will likely allow homebuyers to better negotiate the amount of compensation provided to buyers' agents. The impact of the settlement on the housing market remains unclear; however, brokers' commissions are expected to be reduced over the forecast period.

The consumer price index (CPI) declined from 4.1% growth in 2023 to 3.0% growth in 2024 (0.3 percentage points higher than previously forecasted). Food prices moderated in 2024, increasing just 2.2%, while commodity and energy prices declined 1.0% and 1.3%, respectively. Core CPI (which excludes food and energy prices) increased 3.4%, driven by a 5.0% increase in prices for nonenergy services. The average price of a new vehicle declined only slightly, from $46,200 in 2023 to $45,700 in 2024 ($2,400 higher than estimated in January, 2024). The University of Michigan Consumer Sentiment index fluctuated throughout 2024, falling from 79.0 in January to 66.4 in July, then increasing to 74.0 by the end of the year.

As predicted, the national unemployment rate rose to 4.0% in 2024. In contrast, the Wisconsin unemployment rate declined to 3.0%, as of December, 2024, down from 3.4% in December, 2023. U.S. nonfarm payrolls increased 1.6% for the year, slightly more than previously estimated, while Wisconsin nonfarm payrolls increased 0.7% between December, 2023, and December, 2024. Personal income in the U.S. increased 5.5% in 2024, while wage and salary disbursements increased 5.9%, growing 0.8 and 1.4 percentage points faster than previously forecasted, respectively.

Labor unrest was seen throughout 2024, with workers launching (or threatening to launch) numerous strikes, often with demands for higher wages. For example, on October 1, 2024, dockworkers across 36 U.S. ports launched a strike after discussions for a new six-year contract fell through. The strike lasted three days before dockworkers and port operators reached a tentative agreement for a 62% wage increase over six years. Negotiations of the new contract terms followed, preventing a resumption of the strike in January, 2025. While major disruptions seem to have been avoided, S&P Global expects that the three-day strike may have contributed to a decrease in U.S. imports in October and a corresponding increase in November. Other notable strikes were launched by Boeing machinists, Amazon drivers, healthcare workers, and Starbucks baristas in 2024.

Nominal consumer spending growth continued to ease along with inflation in 2024, but still increased 5.3% (2.3 percentage points higher than CPI growth and 1.4 percentage points higher than assumed in the previous forecast). As such, consumer spending was the primary driver of the economy, contributing 1.8 percentage points to real GDP growth. Growth in spending on services continued to outpace growth in spending on goods, with personal consumption expenditures (PCE) on services constituting 68.5% of all PCE in 2024. This is up 1.0 percentage point from 2023.

The stock market showed considerable strength, with the S&P 500 and Dow Jones Industrial Average increasing 23.3% and 12.9%, respectively, over the year. These increases come on the tail of strong growth in 2023, marking the highest growth over a two-year period since 1997 and 1998. As such, household holdings of equities increased 21.4% in 2024. This strength was not just limited to stocks, however. Gold commodities had their best year of growth since 2010, increasing 27%, and bitcoin more than doubled for the year.

National Economic Forecast

Under the January, 2025, forecast, S&P Global predicts below-potential GDP growth, with the unemployment rate continuing to rise. Real GDP growth is forecast to slow relative to 2024, but to continue growing 2.0% in 2025, 1.7% in 2026, and 1.6% in 2027. In the near term, S&P Global anticipates that President Trump's policies will generally increase inflation, slow the pace of monetary policy easing, and contribute to a stronger dollar and tighter financial conditions. Despite this, S&P Global predicts that the odds of a "soft landing," in which economic growth slows without causing a recession, remain favorable.

The 2025 forecast is based on the following key assumptions. First, Treasury is expected to undertake "extraordinary measures" to meet its debt obligations, now that the debt ceiling is no longer suspended, and the debt ceiling is expected to be increased without a government shutdown. The forecast assumes: (a) an extension of the individual income tax provisions in the 2017 Tax Cuts and Jobs Act (TCJA); (b) some exclusion of tip and overtime pay from federal income taxation; (c) the corporate tax rate is reduced from 21% to 15% on domestic production; and (d) Medicare and Social Security benefits continue to be paid. Second, it assumes that state and local budgets have returned to deficit, after having been supported by stimulus relief measures in 2021 and 2022. However, unspent pandemic-era stimulus funds and ongoing IIJA funds are expected to mitigate pressures to reduce state and local spending. Third, the forecast assumes a reduction in net international migration by 500,000 per year (equal to 0.15% of the U.S. population) for the next four years. Fourth, S&P Global anticipates that the Federal Reserve will reduce the federal funds rate by 25 basis points both in March and June of 2025, before pausing until the third quarter of 2026. Fifth, the forecast assumes a 10% universal tariff and a 30% tariff on imports from China, which is expected to increase the average effective tariff rate from 3.0% in the first quarter of 2025 to 16.4% by the first quarter of 2026. Finally, it assumes that growth in real, trade-weighted foreign GDP will remain at 2.0% in 2025 and rise to 2.2% in 2026. Foreign CPI inflation is expected to fall to 2.5% in 2025 and 2.2% by 2028.

The 2025 forecast is summarized in Table 2, which reflects S&P Global's January, 2025, baseline outlook. Selected baseline projections are presented in more detail below, with alternative optimistic and pessimistic scenarios discussed thereafter.

TABLE 2

Summary of National Economic Indicators
S&P Global Baseline Forecast, January, 2025
($ in Billions)

	2024	2025	2026	2027
Nominal Gross Domestic Product	$29,177.7	$30,657.2	$32,208.7	$33,415.0
Percent Change	5.3%	5.1%	5.1%	3.7%
Real Gross Domestic Product	$23,295.1	$23,757.0	$24,161.6	$24,557.9
Percent Change	2.8%	2.0%	1.7%	1.6%
Consumer Prices (Percent Change)	3.0%	2.9%	3.3%	2.2%
Personal Income	$24,695.5	$25,965.9	$27,401.8	$28,722.3
Percent Change	5.5%	5.1%	5.5%	4.8%
Nominal Personal Consumption Expenditures	$19,811.8	$20,836.8	$21,851.4	$22,785.6
Percent Change	5.3%	5.2%	4.9%	4.3%
Economic Profits	$3,778.5	$3,752.8	$3,633.9	$3,698.6
Percent Change	6.5%	-0.7%	-3.2%	1.8%
Unemployment Rate	4.0%	4.4%	4.7%	4.8%
Total Nonfarm Payrolls (Millions)	158.6	160.0	159.8	159.7
Percent Change	1.6%	0.9%	-0.1%	-0.1%
Light Vehicle Sales (Millions of Units)	15.79	16.18	16.39	16.56
Percent Change	1.9%	2.4%	1.3%	1.1%
Sales of New and Existing Homes (Millions of Units)	4.735	4.956	5.515	5.703
Percent Change	-0.7%	4.7%	11.3%	3.4%
Housing Starts (Millions of Units)	1.347	1.307	1.261	1.257
Percent Change	-5.2%	-3.0%	-3.5%	-0.4%

Fiscal Policy. The annual operating federal budget deficit is expected to decline from $1.832 trillion in federal fiscal year 2024 ($318 billion higher than previously estimated) to $1.808 trillion (-1.4%) in 2025 and $1.780 trillion (-1.5%) in 2026, then grow to $1.909 trillion (7.2%) in 2027. S&P Global estimates that spending by the federal government contributed 0.15 percentage points to real GDP growth in 2024, more than previously estimated, but will contribute just 0.09 percentage points and 0.02 percentage points in 2025 and 2026, respectively, before detracting 0.03 percentage points from growth in 2027. Although spending by state and local governments contributed 0.41 percentage points to real GDP growth in 2024, more than previously estimated, and is projected to contribute 0.10 percentage points in 2025, such spending is expected to slightly subtract from real GDP through the remainder of the forecast period.

S&P Global's forecast includes various policies that the Trump Administration and Republican-controlled Congress are likely to put in place, including tax cuts, tariffs, and deportations. The forecast assumes that personal tax cuts under the TCJA, which are scheduled to expire in 2026, will be made permanent, and that the corporate tax rate is reduced on domestic production from 21% to 15%. In addition, the forecast assumes some income exclusion of tip and overtime pay from federal taxation.

International Trade. As previously predicted, growth in nominal imports (6.2%) exceeded growth in exports (4.3%) in 2024, although both imports and exports grew more than previously expected. Stronger import growth increased the trade deficit by 13.5% ($107.7 billion) in 2024, exceeding the January, 2024, estimate by 8.5 percentage points and detracting 0.39 percentage points from real GDP growth.

The forecast anticipates that the Trump Administration will implement a 10% universal tariff, along with a 30% tariff on imports from mainland China. It is expected that these policies will contribute to slower growth in nominal imports of 3.8% in 2025, before declining 1.4% in 2026 and rebounding 1.4% in 2027. S&P Global predicts that growth in exports will increase 4.6% in 2025, then slow to growth of 2.6% and 3.2% in 2026 and 2027, respectively. Stronger growth in exports is expected to begin improving the U.S. balance of trade beginning in 2026.

Consumer Prices. CPI slowed to 3.0% in 2024, down from 4.1% in 2023 and 8.0% in 2022. As predicted, core CPI, which excludes food and energy prices, exceeded overall CPI, growing 3.4% in 2024. S&P Global expects the growth in CPI to slow to 2.9% in 2025, before increasing to 3.3% in 2026. Higher CPI growth in 2026 is based on S&P Global's expectation that President Trump's proposed tariffs will increase domestic prices. CPI is projected to slow to 2.2% in 2027. S&P Global estimates core CPI growth at 3.2% in 2025 and 2026, and 2.1% in 2027.

Employment. As predicted, the U.S. unemployment rate averaged 4.0% in 2024, up from 3.6% in 2023. The unemployment rate is projected to increase to 4.4% in 2025, 4.7% in 2026, and 4.8% in 2027. Average annual nonfarm payrolls grew 1.6% in 2024 (0.8 percentage points higher than previously forecast), and are expected to remain relatively flat through the forecast period, growing just 0.9% in 2025, then declining by 0.1% in both 2026 and 2027. S&P Global anticipates that the potential for tighter immigration policy and higher levels of deportation under the Trump Administration would add to labor shortages in some industries. The forecast estimates that the annual U.S. labor force participation rate will remain at 62.6% through 2025, then decline to 62.4% in 2026 and 62.1% in 2027.

Personal Income. Personal income grew 5.5% in 2024, higher than previously expected (4.7% in the January, 2024, forecast). Wage and salary disbursements grew 5.9% in 2024 (compared to 4.5% forecast in January, 2024), and are expected to continue growing by 5.5%, 5.8%, and 3.7% in 2025, 2026, and 2027, respectively. Personal income is expected to grow at a similar pace of 5.1% in 2025, 5.5% in 2026, and 4.8% in 2027.

Real disposable income grew at a slower pace compared to 2023 (5.1%), up 2.9% in 2024. S&P Global anticipates that real disposable income will maintain growth of around 2.9% through the rest of the forecast period. The personal savings rate, as a percentage of disposable income, has been increasing, up from 4.7% in 2023 to 4.8% in 2024, and is expected to continue increasing to 5.2% in 2025, 6.4% in 2026, and 6.9% in 2027. Growth in real household net worth is projected to slow significantly to 0.3% in 2025, following 7.0% growth in 2024. Real household net worth is expected to decline 2.5% in 2026 and 0.8% in 2027, impacted by the projected decline in equities (such as stocks) of 8.8% in 2026 and 11.6% in 2027.

Personal Consumption Expenditures. Nominal PCE grew 5.3% in 2024, 1.4 percentage points more than previously forecast, with growth in spending on services (6.9%) outpacing spending on goods (1.8%). As a result, the shift by consumers from spending on goods to services continued, with purchases of services making up 68.5% of all PCE in 2024 (compared to 67.5% in 2023). The forecast projects that consumer spending will continue to shift towards services, with purchases of services making up 69.5% of all PCE by 2027.

S&P Global anticipates that nominal PCE growth will slow to 5.2% in 2025, 4.9% in 2026, and 4.3% in 2027. Sales of consumer items generally subject to the state sales tax (such as most durable goods, clothing, restaurant meals, accommodations, and certain services) grew by an estimated 3.5% in 2024, and are forecast to grow by 4.8% in 2025, 4.1% in 2026 and 3.3% in 2027. Real (inflation-adjusted) PCE is expected to slow from 2.7% in 2024 to 2.5% in 2025 and 1.8% in 2026, then increase to 2.3% in 2027.

Monetary Policy. As mentioned, the Federal Reserve decreased the federal funds rate three times in 2024, to a range of 4.25% to 4.50%. In addition, the Federal Reserve reduced its balance sheet of agency debt, mortgage-backed securities, and Treasurys by $836 billion in 2024, to approximately $6.9 trillion.

Going forward, two more federal funds rate decreases of 25 basis points each are expected in March and June, 2025. Then, S&P anticipates that the Federal Reserve will pause rate decreases until the third quarter of 2026, as proposed tariffs are expected to put upward pressure on prices. The forecast projects that rate decreases will resume at every other meeting, beginning in mid-2026 and ending in early 2027, when the federal funds rate is expected to reach a range of 3.00% to 3.25%. In 2024, the average 30-year fixed mortgage rate was 6.7%, down just slightly from 2023. In response to Federal Reserve rate reductions, mortgage rates are expected to decline to 6.3% in 2025, 5.9% in 2026, and 5.7% in 2027.

Housing. Housing starts declined 5.2% in 2024, lower than the 1.1% decline estimated in January, 2024. The average price of existing homes increased 4.4% in 2024 and the average price for new homes increased 0.2%. Existing home sales declined slightly in 2024, down 1.1% compared to 2023. Overall, sales of new and existing homes declined 0.7% in 2024.

Going forward, S&P Global estimates that a lower rate of household formation, a byproduct of lower immigration, will result in a continued decline in housing starts over the forecast period. Housing starts are projected to decline 3.0% in 2025, 3.5% in 2026, and 0.4% in 2027. Existing home sales are projected to increase 5.0% in 2025, 13.6% in 2026, and 4.4% in 2027, as lower mortgage rates over the forecast period ease the "lock-in" effect experienced by current homeowners. The average price of existing homes is expected to grow more slowly through 2027, increasing 3.8% in 2025, 3.6% in 2026, and 3.5% in 2027.

Business Investment. S&P Global estimates that nominal nonresidential fixed investment grew

5.4% in 2024, 2.2 percentage points higher than the January, 2024, estimate of 3.2%. Growth in 2024 was led by investment in intellectual property products (6.4%), followed by investment in equipment (5.8%) and in structures (3.1%). Inventories increased by an estimated $43.6 billion in 2024 (from quarter four of 2023 to quarter four of 2024), up from the $25.2 billion increase estimated in January, 2024. Going forward, S&P Global anticipates inventories will continue to increase another $70.7 billion, $100.0 billion, and $94.9 billion in 2025, 2026, and 2027, respectively.

S&P Global expects that spending on semiconductor and electric vehicle battery plants has reached its peak. In addition, recent monetary policy tightening, although slowly beginning to reverse, has elevated borrowing costs for businesses. The forecast anticipates that these factors will slow growth in nominal nonresidential fixed investment from 5.4% in 2024 to 4.9% in 2025, 4.4% in 2026, and 1.4% in 2027.

Corporate Profits. Corporate before-tax book profits increased by an estimated 9.9% in 2024, 6.5 percentage points higher than previously forecast, and are forecast to increase 1.9% in 2025, decrease 1.3% in 2026, and increase 1.9% in 2027. Economic profits, which are adjusted for inventory valuation and capital consumption at current cost (and are not affected by federal tax laws), increased 6.5% in 2024 (5.7 percentage points higher than forecasted in January, 2024). S&P Global forecasts that economic profits will decrease 0.7% in 2025 and 3.2% in 2026, before increasing 1.8% in 2027. The current forecast assumes that the effective federal corporate tax rate for all industries was 14.2% in 2024, and will decline slightly to 14.0% in each year of the forecast period.

Under current law, the temporary 100% bonus depreciation provision enacted by the TCJA will continue to phase out, with the bonus depreciation percentage declining from 60% in 2024 to 40% in 2025, 20% in 2026, and 0% for property placed in service after 2026. In its January, 2025, forecast, S&P Global assumes that the phase-out of bonus depreciation will remain in place.

Alternative Scenarios. S&P Global's January, 2025, forecast also includes an optimistic and a pessimistic scenario. Under the optimistic scenario, S&P Global assigns a 25% probability that the U.S. will implement lower tariffs and experience less retaliation by trading partners than assumed in the baseline forecast. It assumes that lower tariffs will lead to lower near-term inflation. The optimistic scenario estimates CPI at 2.7% in 2025 and 2026, 0.2 and 0.5 percentage points lower than the baseline, respectively. In response, the Federal Reserve lowers the federal funds rate more quickly than in the baseline, reaching a range of 2.75% to 3.00% by mid-2026. However, economic strength and labor market tightness, illustrated by a steady (and lower) 4.3% unemployment rate over the forecast period, brings the estimate of 2027 CPI (2.5%) higher than in the baseline (2.2%). Under the optimistic scenario, fewer and slower deportations boost population growth compared to the baseline, increasing real PCE by 0.3, 1.3, and 0.7 percentage points in 2025, 2026, and 2027, respectively. The combination of lower tariffs and faster population growth increases economic output and financial conditions, which contributes to elevated business fixed investment. In turn, real GDP grows 2.3% in 2025, 2.6% in 2026, and 2.0% in 2027, higher growth of 0.3, 0.9, and 0.4 percentage points, respectively, relative to the baseline forecast.

Under the pessimistic scenario, to which S&P Global assigns a 25% probability, higher tariffs and a more noticeable retaliation by trading partners causes higher inflation than assumed in the baseline. Higher tariffs, paired with slower population growth as a result of stricter immigration policy, have a more negative impact on economic output, financial conditions, and business fixed investment, compared to the baseline forecast. These factors contribute to higher inflation in 2025 (3.0%) and 2026 (3.6%), compared to the baseline, and give the Federal Reserve reason to pause rate reductions through all of 2026. Under the pessimistic scenario, the federal funds rate reaches a range of 3.25% to 3.50% in late 2027, which is 25 basis points above the baseline estimate. As such, real GDP grows 0.3, 0.7, and 0.5 percentage points slower than the baseline in 2025, 2026, and 2027, respectively. It is assumed that the unemployment rate will increase more than expected under the baseline, reaching 5.4% by mid-2027.

General Fund Taxes

Table 3 shows general fund tax revenue estimates for 2024-25 and for each year of the 2025-27 biennium. Over the three-year period, these estimates are $894.3 million higher than the projections of the November 20, 2024, report. By year, the estimates are higher by $239.6 in 2024-25, $355.2 million in 2025-26, and $299.5 million in 2026-27. The new estimates are based on the most recent national economic forecast and year-to-date tax collections data. The estimates incorporate all law changes enacted to date, including reduced revenues associated with the expiration of 38 revenue agent project positions within the Department of Revenue (DOR).

TABLE 3

Projected General Fund Tax Collections
($ in Millions)

	2023-25 Biennium		2025-27 Biennium	
	2023-24 Actual	2024-25 Estimated	2025-26 Estimated	2026-27 Estimated
Individual Income	$9,717.6	$10,420.0	$11,140.0	$11,880.0
General Sales & Use	7,587.5	7,760.0	8,140.0	8,375.0
Corporate Income/Franchise	2,702.1	2,770.0	2,415.0	1,785.0
Public Utility	399.5	384.0	404.0	394.0
Excise				
Cigarette	402.7	371.0	348.0	326.0
Tobacco Products	85.7	86.0	85.0	84.0
Vapor Products	7.1	7.1	7.2	7.3
Liquor and Wine	68.3	73.0	74.0	76.0
Beer	8.0	8.2	8.2	8.1
Insurance Company	242.6	263.0	270.0	275.0
Miscellaneous Taxes	108.5	110.0	121.0	129.0
Total	$21,329.6	$22,252.3	$23,012.4	$23,339.4
Change from Prior Year		$922.7	$760.1	$327.0
Percent Change		4.3%	3.4%	1.4%

Over the three-year period, compared to the November 20 report, the estimates are higher for general sales and use taxes ($615.9 million), which accounts for 69% of the increased revenue.

Insurance company taxes ($24.9 million), public utility taxes ($20.1 million), and miscellaneous taxes ($8.0 million) have also been estimated higher over the three-year period, offset by excise taxes that are estimated lower by $14.1 million.

Income and franchise tax revenues are estimated $239.5 million higher over the three-year period, with individual income tax increases of $1,858.7 million offset by corporate income/franchise tax decreases of $1,619.2 million. The estimated revenue changes to income and franchise taxes primarily reflect federal tax law changes that will impact state pass-through entity (PTE) tax revenue. DOR records PTE revenues under the corporate income/franchise tax, rather than under the individual income tax.

Under current law, taxpayers may choose to file at the entity level if the value of their federal deduction for state and local taxes (SALT) exceeds the increased cost of paying the 7.9% PTE tax rate (which is higher than the rates and brackets that apply under the individual income tax). Taxpayers who file under the state PTE tax may deduct SALT without limit, whereas individual income tax filers cannot deduct state and local taxes exceeding $10,000 annually. It is estimated that taxpayers will remit $925 million under the PTE tax in 2024-25, which is estimated to be $85 million more than what would have otherwise been paid under the individual income tax ($840 million).

Under current federal law, the $10,000 limit on the SALT deduction for individual filers expires after tax year 2025. Although it is possible some taxpayers may continue to file under the PTE tax, it is assumed that current pass-through businesses would lack an economic incentive to file under the PTE tax and, instead, would file under the state individual income tax beginning in tax year 2026. Expiration of the federal SALT deduction limit is estimated to reduce income and franchise tax revenues by $25.0 million in 2025-26 and $85.0 million in 2026-27, comprised of increased individual income tax revenues of $250.0 million in 2025-26 and $840.0 million in 2026-27 and lower corporate income/franchise tax revenues of $275.0 million in 2025-26 and $925.0 million in 2026-27.

Individual Income Tax. Total individual income tax collections in 2023-24 were $9,717.6 million, representing growth of 3.2% relative to the prior year. Actual collections in 2023-24 were 1.9% ($177.6 million) higher than the January, 2024, estimate.

Based on collections information through December, 2024, year-to-date collections in 2024-25 are 8.4% ($364.6 million) higher than the same time period in the prior year. Over the remainder of 2024-25, total revenues are expected to increase by 6.3% (relative to the same period in 2023-24) to an annual total of $10,420.0 million. This estimate represents annual collections growth of 7.2%. This is driven primarily by: (a) year-to-date withholding collections that are 7.2% higher than the prior year through December; and (b) a significant increase in capital gains-related tax receipts expected to occur over the remainder of 2024-25. High levels of capital gains realizations in tax year 2024 are expected to increase tax payments, primarily in April, 2025, by nearly $240 million relative to the prior year. By 2026-27, realization activity is expected to return to levels more in line with historical trends.

The most significant law change weighing on collections growth in 2024-25 is the impact, beginning in tax year 2024, of the expanded child and dependent care expenses credit under 2023

Act 101. The credit is estimated to reduce individual income tax collections by $72.9 million annually, beginning in 2024-25. This fiscal impact is expected to result in increased refunds paid over the remainder of 2024-25, once eligible taxpayers begin to file their tax year 2024 returns.

In 2025-26, total individual income tax revenues are expected to increase by 6.9% to $11,140.0 million. Wages and salaries are currently forecast to grow significantly in 2025-26, which corresponds to continued increases in estimated withholding collections. The scheduled expiry of the federal SALT deduction limitation in tax year 2026 is expected to cause current PTE tax filers to revert to filing and paying under the individual income tax, beginning with estimated payments made in the latter half of 2025-26. The estimated effect of this filing shift on individual income tax collections is an increase of $250.0 million (2.4 percentage points of growth) in 2025-26.

In 2026-27, annual collections growth of 6.6% is anticipated, resulting in total estimated revenues of $11,880.0 million. Withholding growth is expected to moderate, but collections are buoyed by the continued shift of revenue from the PTE tax to the individual income tax, which is estimated to increase collections relative to the prior year by $590.0 million (5.3 percentage points of growth).

General Sales and Use Tax. State sales and use tax revenues totaled $7,587.5 million in 2023-24, and are estimated at $7,760.0 million in 2024-25 (2.3% over the prior year). Year-to-date sales tax collections through December are $86.7 million (2.7%) over the same period in the previous year, and are expected to grow 2.0% for the remaining months of 2024-25. The estimate accounts for various sales tax exemptions enacted during the 2023-25 biennium, as well as large refund and audit payments previously made or anticipated over the remainder of the year.

Sales tax revenues in the next biennium are estimated at $8,140.0 million in 2025-26 and $8,375.0 million in 2026-27, reflecting growth of 4.9% and 2.9%, respectively. These estimates reflect higher November and December collections (compared to November projections) and utilize an updated forecast from S&P Global that incorporates President Trump's proposed tariff policies, which are expected to increase inflation and nominal consumer spending.

Corporate Income/Franchise Tax. Corporate income/franchise taxes were $2,702.1 million in 2023-24, which is a decrease of 1.7% from the previous year. Corporate tax revenues are projected to be $2,770.0 million in 2024-25 (a 2.5% increase). The estimate reflects year-to-date corporate tax collections, which have increased 3.8% compared to the same period through December of last year. Collections are estimated to be bolstered this year by the one-time effects from large audit payments to date and previously enacted state and federal law changes to the supplement to the federal historic rehabilitation credit (which reduces the cost of the credit relative to 2023-24).

For the next biennium, corporate tax revenues are projected to be $2,415.0 million in 2025-26 (a 12.8% decrease) and $1,785.0 million in 2026-27 (a 26.1% decrease). These large declines are anticipated due to two factors. First, as stated above, it is assumed that the expiration of the $10,000 limit for deductions of state and local taxes under current federal law will cause pass-through entity filers to elect to pay tax under the individual income tax rather than the corporate income/franchise tax, causing collections under the corporate income/franchise tax to substantially decrease after tax year 2025 by $275.0 million in 2025-26 (a 10% decrease in estimated collections for that year) and by $925.0 million in 2026-27 (a 34% decrease in estimated collections).

Second, in addition to the changes under the PTE tax, it is estimated that growth in corporate collections will decline. The one-time effects boosting audit payments in 2024-25 are not anticipated to continue, and the forecasted growth in both economic profits (-3.9% in 2025-26 and +0.5% in 2026-27) and book profits (-0.6% in 2025-26 and +0.4% in 2026-27) is projected to reduce collections relative to the baseline 2024-25 amount.

Public Utility Taxes. Revenues from public utility taxes totaled $399.5 million in 2023-24, and are estimated at $384.0 million in 2024-25, $404.0 million in 2025-26, and $394.0 million in 2026-27. Year-over-year, these amounts represent a decrease of 3.9% in 2024-25, an increase of 5.2% in 2025-26, and a decrease of 2.5% in 2026-27.

The estimated decline in collections in 2024-25 is due to a combination of slowing electricity sales, declining natural gas sales, and a continued decline in the statewide net property tax rate. Data reported by Wisconsin utilities from January through September, 2024, show an increase of 0.3% for electricity sales and a 19.1% decrease in natural gas sales. Collections are expected to recover in 2025-26, as electricity and natural gas sales increase and property tax rates moderate.

Estimated tax payments from telecommunications companies are anticipated to decline in 2027 once the personal property exemption enacted under 2023 Act 140 takes effect. It is assumed that the exemption will first affect May, 2027, estimated payments, reducing 2026-27 collections. However, the full effect of the exemption will not be realized until 2027-28.

Excise Taxes. General fund excise taxes are imposed on cigarettes, liquor (including wine and hard cider), other tobacco products, vapor products, and beer. In 2023-24, excise tax collections totaled $571.8 million, of which $402.7 million (70.4%) was from the excise tax on cigarettes. Total excise tax collections in 2023-24 represented a decrease of 7.4% from the prior fiscal year, primarily driven by a decrease in cigarette tax collections of 9.4% compared to the prior year. Excise tax revenues are estimated at $545.3 million in 2024-25, which represents a 4.6% decrease in revenues. Excise tax revenues over the next biennium are estimated to decrease by 4.2% to $522.4 million in 2025-26 and by 4.0% to $501.4 million in 2026-27. The estimates reflect the ongoing trend of declining cigarette consumption, a more recent trend of declining tobacco tax revenue, and modest growth in other excise tax categories.

Insurance Premiums Taxes. Insurance premiums taxes were $242.6 million in 2023-24. Revenues are projected to increase to $263.0 million in 2024-25, $270.0 million in 2025-26, and $275.0 million in 2026-27. The new estimates are based on 12.4% growth in year-to-date insurance premiums tax collections (which reflect more growth than anticipated in November), forecasted growth in spending on insurance and financial services, and historic collections trends under the insurance premiums tax.

Miscellaneous Taxes. Miscellaneous taxes include the real estate transfer fee, municipal and circuit court-related fees, and a small amount from the occupational tax on coal. Miscellaneous tax revenues were $108.5 million in 2023-24, of which 87.3% was generated from the transfer fee. Based on the economic forecast for the housing sector, as well as collections through December, 2024, miscellaneous taxes are projected to increase to $110.0 million in 2024-25, which represents a 1.4% increase from 2023-24 collections. Miscellaneous tax revenues are estimated to increase 10.0%, to $121.0 million, in 2025-26, and by 6.6%, to $129.0 million, in 2026-27. Large increases in 2025-26 and 2026-27 are driven by S&P Global's estimates of increased existing home sales.

This office will continue to monitor state revenues and expenditures and new economic forecasts, and notify you and your colleagues of any further adjustments that may be necessary.

Sincerely,

Bob Lang

Robert Wm. Lang
Director

RWL/lb
cc: Members, Wisconsin Legislature