Legislative Fiscal Bureau

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State of Wisconsin

May 15, 2025

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

Dear Representative Born and Senator Marklein:

On January 29, 2025, this office distributed its estimates of general fund revenues and expenditures for the 2024-25 fiscal year and tax collection projections for each year of the next biennium. Recently, tax collection data for April, 2025, became available and S&P Global Market Intelligence (S&P Global) released its May, 2025, forecast of the national economy.

Based upon our review of the collections data and the new economic forecast, we believe that tax collections will be higher than the January 29 report by $22.0 million in 2024-25, and lower by $321.0 million in 2025-26 and $36.0 million in 2026-27. The three-year reduction is $335.0 million, or -0.49%.

2024-25

In addition to the $22.0 million in increased tax collections, it is estimated that departmental revenues will be $8.7 million above the January 29 projection and net appropriations will be $39.5 million below the earlier estimates.

The net result of these estimates is that the projected gross balance in the general fund will be $4,337.7 million, which is $70.2 million above the January projection of $4,267.5 million.

The general fund condition statement for 2024-25, which incorporates the information of this report, 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	22,274,300,000
Departmental Revenues	
Tribal Gaming	18,848,800
Other	767,894,500
Total Available	$27,683,334,300
Appropriations, Transfers, and Reserves	
Gross Appropriations	$21,033,786,400
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	-482,552,100
Net Appropriations	$23,345,644,300
Balances	
Gross Balance	$4,337,690,000
Less Required Statutory Balance	-105,000,000
Net Balance, June 30	$4,232,690,000

General Fund Tax Collections

S&P Global's May, 2025, economic forecast projects weaker economic growth than the January forecast, which was used in preparing the earlier tax revenue estimates. Nominal and real (inflation-adjusted) gross domestic product (GDP), personal income, and sales of light vehicles are expected to be lower in 2025 through 2027, compared to the January forecast. Inflation, as measured by the consumer price index (CPI), is expected to grow at a faster rate in 2025, but at lower rates in 2026 and 2027, compared to the January forecast. Similarly, nominal personal consumption expenditures (PCE) are expected to be higher in 2025, but lower in 2026 and 2027, compared to the January forecast. The Attachment outlines the May, 2025, economic forecast by S&P Global, as well as changes to the forecast since January, for 2025 through 2027.

The May forecast is based on the following key assumptions. First, the federal debt ceiling is assumed to be raised or suspended prior to the exhaustion of "extraordinary measures," which Treasury has undertaken since January 1, 2025, to meet its obligations, and a federal government shutdown is avoided. The forecast assumes the federal government will enact the following changes to federal tax law: (a) the personal income tax provisions of the Tax Cuts and Jobs Act of 2017 are extended into (and beyond) 2026; (b) some tip and overtime pay is excluded from income; and (c) the corporate income tax rate is lowered from 21% to 15% for corporations that produce domestically. Unspent pandemic-era funds and monies authorized under the Infrastructure Investment and Jobs Act are expected to mitigate pressures on state and local governments to reduce spending. Net international immigration is assumed to be 500,000 lower per year (equal to 0.15% of the U.S. Population) than immigration levels estimated by the U.S. Census Bureau over the next four years. The Federal Reserve is expected to maintain the federal funds rate at its current level (4.25%-4.50%) until December, 2025, then begin reducing rates to a range of 2.75%-3.00% by the end of 2026. Growth of real, trade-weighted foreign GDP is expected to slow from 2.0% in 2024 to 1.6% in 2025, before rising to 1.9% in 2026 and 2.2% through 2029, and foreign measures of inflation are expected to ease from 3.2% in 2024 to 2.5% in 2025 and 2.4% in 2026.

The S&P Global forecast also incorporates the following assumptions regarding tariffs into its May forecast. In addition to Section 232 tariffs (related to national security) of 25% already in place for imports of automobiles, aluminum, and steel, new Section 232 tariffs on copper, lumber, semiconductors, pharmaceuticals, and critical materials ranging from 10% to 25% are assumed to become effective in the fourth quarter of 2025. Tariffs currently imposed under the International Emergency Economic Powers Act that are tied to the flow of fentanyl and immigration are expected to remain at 20% for China, but are assumed to decrease from 25% on Canada and Mexico to 12% by early 2026. Reciprocal tariffs of 10% on most other countries are expected to remain at 10% through the forecast period; however, the current 125% tariff rate on imports from China is expected to decrease to 17% by late 2025. Relative to the January forecast, tariffs were generally imposed at a faster and higher rate over the last four months than was previously assumed.

The 90-day pause to reciprocal tariffs on China was announced after the May forecast was released and is not included in the forecast. The pause is expected to lower inflation and improve growth over the next 90 days. However, it is unknown what rate the reciprocal tariffs on China will be after the pause, relative to the 17% rate assumed by S&P Global at the end of 2025.

Overall, year-to-date collections for 2024-25 are slightly above the estimates of general fund tax collections distributed by this office on January 29, 2025. However, the weaker forecast is expected to result in lower revenues over the 2025-27 biennium. Table 2 shows the revised general fund tax collection estimates for 2024-25 and the two years of the next biennium. It should be noted that these revenue estimates reflect current state and federal law, and do not incorporate any of the tax law changes proposed by the Governor in his 2025-27 budget recommendations.

TABLE 2

Projected General Fund Tax Collections Under Current Law
($ 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	$10,830.0	$11,820.0
General Sales & Use	7,587.5	7,825.0	8,140.0	8,375.0
Corporate Income/Franchise	2,702.1	2,710.0	2,385.0	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	275.0	285.0	294.0
Miscellaneous Taxes	108.5	115.0	125.0	134.0
Total	$21,329.6	$22,274.3	$22,691.4	$23,303.4
Change from Prior Year		$944.7	$417.1	$612.0
Percent Change		4.4%	1.9%	2.7%

Based on our review of collections data and the economic forecast, general fund taxes will be higher than previous estimates by $22 million in 2024-25, and lower than the previous estimates by $321 million in 2025-26 and $36 million in 2026-27. The three-year decrease is $335 million, or 0.49%, reflecting a lower forecast for individual income taxes ($370 million) and corporate income/franchise taxes ($90 million). These reductions are partly offset by an increased forecast over the three-year period for general sales and use taxes ($65 million), insurance premiums taxes ($46 million), and miscellaneous taxes ($14 million). The estimates for utility taxes and excise taxes have not been changed since January.

The estimates shown in Table 2 incorporate the same assumptions used by this office with regards to shifting income and franchise tax collections under current federal law as under the January forecast. 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% pass-through entity (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 million in 2025-26 and $85 million in 2026-27, comprised of increased individual income tax revenues of $250 million in 2025-26 and $840 million in 2026-27 and lower corporate income/franchise tax revenues of $275 million in 2025-26 and $925 million in 2026-27. Future changes to federal tax law may change this estimated effect by an unknown amount.

Individual Income Taxes. Based on year-to-date collections, estimated individual income tax collections in 2024-25 are unchanged from the January estimate of $10,420 million. The high level of capital gains realizations anticipated for tax year 2024 appears to have materialized in 2024-25 collections to date. It was previously assumed that such realizations would remain elevated (albeit lower) in tax year 2025 (affecting 2025-26 collections) and continue to decline in 2026. However, given recent volatility in the stock market, this assumption has since been revised. Additionally, the May forecast predicts slower near-term growth in wages and salaries than had been projected in January (a lower growth rate in 2025-26, partly offset by a higher growth rate in 2026-27). These are the primary factors contributing to lower estimated revenues than previously forecast. Total income tax revenues are estimated at $10,830 million in 2025-26 and $11,820 million in 2026-27, reflecting growth of 3.9% in 2025-26 and 9.1% in 2026-27. The 9.1% growth rate in 2026-27 is largely a result of the assumed shift in PTE revenues being reported under the individual income tax, rather than the corporate income/franchise tax. Relative to the January estimates, the revised estimates are lower by $310 million (2.8%) in 2025-26 and $60 million (0.5%) in 2026-27.

General Sales and Use Tax. State sales and use tax revenues are estimated at $7,825 million in 2024-25, which represents growth of 3.1% over the prior year and an increase of $65 million relative to the January estimate. Sales tax revenues are estimated at $8,140 million in 2025-26 and $8,375 million in 2026-27, unchanged from January, reflecting growth of 4.0% and 2.9%, respectively.

The May forecast for taxable PCE in 2024-25 is 1.2 percentage points higher than in the January forecast, which has contributed to the increase in estimated sales tax revenues for fiscal year 2024-25, relative to January. In addition, the January estimates anticipated that a large sales tax refund would be claimed and distributed in 2024-25, which is now estimated to be claimed in 2025-26. Although the estimate for 2025-26 remains unchanged relative to January, the estimate now reflects growth that is lower by 0.9 percentage points, due to a lower forecast of taxable PCE growth in 2025-26 and the anticipated refund payment shifting to that year.

Corporate Income/Franchise Tax. Corporate income/franchise tax revenues are now projected to be $2,710 million in 2024-25, $2,385 million in 2025-26, and $1,785 million in 2026-27. Compared to the previous estimates, the reestimates represent decreased revenues of $60 million in 2024-25 and $30 million in 2025-26, but no change in 2026-27 (-$90 million total). Collections are weaker than anticipated in the January forecast, but are essentially the same as last year through April, with weakness in estimated payments year-to-date offset by growth in final payments. The weakness in year-to-date collections is consistent with S&P Global's reduced forecast for economic profits in 2025. The forecast for economic profits has improved for 2026, resulting in a smaller decrease in estimated collections for 2025-26 and no change to the previous estimate for 2026-27.

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 an estimated $275 million in 2025-26 and $925 million in 2026-27. This assumption accounts for most of the 12.0% decline in year-over-year estimated corporate collections in 2025-26 and the 25.2% estimated decrease in 2026-27.

Insurance Premiums Taxes. Insurance premiums taxes are now projected to be $275 million in 2024-25, $285 million in 2025-26, and $294 million in 2026-27. Compared to the previous estimates, the revised estimates represent increases in insurance premiums tax revenues of $12 million in 2024-25, $15 million in 2025-26, and $19 million in 2026-27. The new estimates are increased to reflect year-to-date collections. Since January, 2025, collections have increase by 13.8% over the same period in the previous year, indicating that growth in premiums did not slow in 2025 as anticipated.

Miscellaneous Taxes. Miscellaneous tax revenues are estimated at $115 million in 2024-25, $125 million in 2025-26, and $134 million in 2026-27, with revenues increasing 6.0% in 2024-25, 8.7% in 2025-26, and 7.2% in 2026-27. The estimates have increased $5 million in 2024-25, $4 million in 2025-26, and $5 million in 2026-27, relative to the January estimates. The real estate transfer fee makes up the majority of miscellaneous taxes and is the reason for the increased estimates. Real estate transfer fee collections since December, 2024, have been stronger than previously anticipated. Similarly, the May forecast would indicate continued collection strength through the remainder of 2024-25, led by a projected increase in the sales volume of existing houses compared to January. These factors have increased the overall forecast of miscellaneous tax revenues.

This office will continue to monitor state revenues, expenditures, and 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

ATTACHMENT

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

	January, 2025			May, 2025			Difference from January		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
Nominal Gross Domestic Product	$30,657.2	$32,208.7	$33,415.0	$30,643.3	$32,005.7	$33,173.3	-$13.9	-$203.0	-$241.7
% Change	5.1%	5.1%	3.7%	5.0%	4.4%	3.6%	-0.1%	-0.6%	-0.1%
Real Gross Domestic Product	$23,757.0	$24,161.6	$24,557.9	$23,618.0	$24,008.1	$24,402.8	-$139.0	-$153.6	-$155.0
% Change	2.0%	1.7%	1.6%	1.3%	1.7%	1.6%	-0.6%	-0.1%	0.0%
Consumer Prices (Percent Change)	2.9%	3.3%	2.2%	3.4%	2.9%	2.2%	0.5%	-0.4%	-0.1%
Personal Income	$25,965.9	$27,401.8	$28,722.3	$25,787.8	$27,043.2	$28,425.6	-$178.0	-$358.5	-$296.7
% Change	5.1%	5.5%	4.8%	4.6%	4.9%	5.1%	-0.6%	-0.7%	0.3%
Nominal PCE	$20,836.8	$21,851.4	$22,785.6	$20,954.1	$21,799.2	$22,643.1	$117.2	-$52.2	-$142.6
% Change	5.2%	4.9%	4.3%	5.7%	4.0%	3.9%	0.5%	-0.8%	-0.4%
Economic Profits	$3,752.8	$3,633.9	$3,698.6	$3,605.6	$3,688.1	$3,694.4	-$147.2	$54.2	-$4.2
% Change	-0.7%	-3.2%	1.8%	-5.8%	2.3%	0.2%	-5.1%	5.5%	-1.6%
Unemployment Rate	4.4%	4.7%	4.8%	4.4%	4.9%	5.0%	-0.1%	0.2%	0.2%
Total Nonfarm Employment (Millions)	160.0	159.8	159.7	159.5	159.9	160.2	-0.4	0.1	0.6
% Change	0.9%	-0.1%	-0.1%	1.0%	0.2%	0.2%	0.1%	0.3%	0.3%
Light Vehicle Sales (Millions of Units)	16.18	16.39	16.56	15.48	14.97	15.56	-0.70	-1.42	-1.00
% Change	2.4%	1.3%	1.1%	-2.0%	-3.3%	4.0%	-4.5%	-4.6%	2.9%
Sales of New and Existing Homes (Millions of Units)	4.956	5.515	5.703	4.973	5.474	5.643	0.017	-0.041	-0.060
% Change	4.7%	11.3%	3.4%	4.7%	10.1%	3.1%	0.0%	-1.2%	-0.3%
Housing Starts (Millions of Units)	1.307	1.261	1.257	1.385	1.342	1.324	0.078	0.081	0.068
% Change	-3.0%	-3.5%	-0.4%	1.3%	-3.1%	-1.3%	4.3%	0.4%	-0.9%