



## Legislative Fiscal Bureau

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2017

Joint Committee on Finance

Paper #285

### **Income Tax Rate Reduction (General Fund Taxes -- Income and Franchise Taxes)**

[LFB 2017-19 Budget Summary: Page 175, #1]

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#### **CURRENT LAW**

Under the state individual income tax, Wisconsin taxable income is multiplied by the applicable tax rates to arrive at gross tax liability. Currently, the state employs four tax brackets, with a separate tax rate assigned to each bracket. The tax rate structure is cumulative so that each tax rate applies only to income that falls within the corresponding bracket. A taxpayer with income exceeding the threshold for the top bracket would have income subject to each of the four tax rates. The tax brackets vary by filing status and are indexed annually for inflation.

#### **GOVERNOR**

Beginning with tax year 2017, reduce the marginal tax rates that apply to income that falls within the bottom two income brackets of the state's individual income tax from 4.0% to 3.9% and from 5.84% to 5.74%. In addition, increase the income threshold separating the second and third tax brackets, thereby causing more income to be subject to the proposed 5.74% marginal rate, as opposed to the 6.27% marginal rate. The rate and bracket structures under current law and under the Governor's proposal are shown below:

		Tax Year 2017		
		<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>
<b>Rates and Estimated Brackets -- Current Law</b>				
4.00%	Less than \$11,230	Less than \$14,980	Less than \$14,980	Less than \$7,490
5.84	11,230 to 22,470	14,980 to 29,960	14,980 to 29,960	7,490 to 14,980
6.27	22,470 to 247,350	29,960 to 329,810	29,960 to 329,810	14,980 to 164,900
7.65	247,350 and Over	329,810 and Over	329,810 and Over	164,900 and Over
<b>Governor's Proposed Rates and Estimated Brackets</b>				
3.90%	Less than \$11,230	Less than \$14,980	Less than \$14,980	Less than \$7,490
5.74	11,230 to 28,080	14,980 to 37,450	14,980 to 37,450	7,490 to 18,720
6.27	28,080 to 247,350	37,450 to 329,810	37,450 to 329,810	18,720 to 164,900
7.65	247,350 and Over	329,810 and Over	329,810 and Over	164,900 and Over

		Tax Year 2018		
		<u>Single</u>	<u>Married-Joint</u>	<u>Married-Separate</u>
<b>Rates and Estimated Brackets -- Current Law</b>				
4.00%	Less than \$11,520	Less than \$15,370	Less than \$15,370	Less than \$7,680
5.84	11,520 to 23,050	15,370 to 30,730	15,370 to 30,730	7,680 to 15,370
6.27	23,050 to 253,760	30,730 to 338,350	30,730 to 338,350	15,370 to 169,180
7.65	253,760 and Over	338,350 and Over	338,350 and Over	169,180 and Over
<b>Governor's Proposed Rates and Estimated Brackets</b>				
3.90%	Less than \$11,520	Less than \$15,370	Less than \$15,370	Less than \$7,680
5.74	11,520 to 28,810	15,370 to 38,420	15,370 to 38,420	7,680 to 19,210
6.27	28,810 to 253,760	38,420 to 338,350	38,420 to 338,350	19,210 to 169,180
7.65	253,760 and Over	338,350 and Over	338,350 and Over	169,180 and Over

As under current law, the tax bracket amounts would be indexed each year based on changes in the consumer price index. However, the bill would need to be amended to correctly apply the indexing provisions. These provisions would reduce individual income tax collections by an estimated \$104,377,700 in 2017-18 and \$99,076,900 in 2018-19. The Department of Administration (DOA) indicates that the Department of Revenue (DOR) would not adjust individual income tax withholding tables to reflect the proposed changes.

## DISCUSSION POINTS

1. The last time that income tax rates and brackets were changed was during the 2013 - 2014 legislative session. In the 2013-15 budget act (2013 Wisconsin Act 20), the rates for each of the brackets were decreased, and the number of brackets was reduced from five to four by combining the third and fourth tax brackets. Also, the Act made a number of other changes to the state income tax. A second rate reduction was enacted as part of 2013 Wisconsin Act 145, which lowered the rate for the first bracket from 4.4% to 4.0%. Except for indexing, the rate and bracket structure established in Acts 20 and 145 has remained in effect. Prior to 2013-14, the last income tax rate reduction occurred in a two-step process in tax years 2000 and 2001, as a result of changes included in 1999 Wisconsin Act 9.

2. One reason to reduce state income taxes is that Wisconsin has historically been viewed as a high tax state. For all state and local taxes, Wisconsin ranks below average for the general sales and use tax compared to other states, but ranks above average for the individual income tax, the state government's largest tax source. Two of the most common measures of interstate tax rankings are taxes per \$1,000 of personal income and taxes per capita, each of which is based on data compiled by the U.S. Department of Commerce. Table 1 reports Wisconsin's individual income tax ranking under both measures in five-year increments since 1998-99. At the time of the 1999 law changes, Wisconsin's income tax under both measures was ranked as one of the 10 highest, and Wisconsin's tax rankings dropped after the Act 9 changes took effect. For 2013-14 when the Act 20 changes took effect, Wisconsin's tax ranking dropped under the personal income measure, but was unchanged under the per capita measure, compared to its rankings for 2008-09. However, the difference between both measures and the U.S. average narrowed in 2013-14, in comparison to 2008-09.

**TABLE 1**

**Wisconsin Individual Income Tax Ranking Under Two Measures in Selected Years**

	<u>Taxes Per \$1,000 of Personal Income</u>			<u>Taxes Per Capita</u>		
	<u>Amount</u>	<u>Rank</u>	<u>Difference from U.S. Average</u>	<u>Amount</u>	<u>Rank</u>	<u>Difference from U.S. Average</u>
1998-99	\$36.12	7	44.8%	\$968.04	9	42.7%
2003-04	29.88	10	31.7	952.33	12	29.6
2008-09	27.23	11	25.6	1,053.25	14	19.3
2013-14	27.68	13	14.2	1,179.50	14	10.3

Sources: U.S. Census Bureau and Bureau of Economic Analysis.

3. While the data in Table 1 shows that Wisconsin imposes an above-average income tax burden on its residents relative to other states, other data may qualify that impression. The burden displayed in Table 1 also reflects the policy choice to rely more heavily on the income tax than on other taxes or fees and the state's low reliance on federal revenue. When all state and local general revenues are considered, since 1998-99 Wisconsin has ranked between 21<sup>st</sup> and 29<sup>th</sup> in terms of revenue per \$1,000 of personal income and between 18<sup>th</sup> and 30<sup>th</sup> in terms of revenue per capita (Table 2).

**TABLE 2****Wisconsin State and Local Government General Revenue,  
Ranking Under Two Measures in Selected Years**

	<u>Revenues Per \$1,000 of Personal Income</u>			<u>Revenues Per Capita</u>		
	<u>Amount</u>	<u>Rank</u>	<u>Difference from U.S. Average</u>	<u>Amount</u>	<u>Rank</u>	<u>Difference from U.S. Average</u>
1998-99	\$199.03	21	5.3%	\$5,334.08	18	3.8%
2003-04	202.75	28	1.9	6,463.06	20	0.3
2008-09	201.81	26	3.8	7,805.80	23	-1.4
2013-14	192.33	29	-1.9	8,194.44	30	-5.3

Sources: U.S. Census Bureau and Bureau of Economic Analysis.

4. Examination of expenditure data reveals a similar pattern since 1998-99. In terms of all state and local government expenditures, Wisconsin has ranked between 22<sup>nd</sup> and 27<sup>th</sup> on expenditures per \$1,000 of personal income and between 14<sup>th</sup> and 26<sup>th</sup> on expenditures per capita (Table 3).

**TABLE 3****Wisconsin State and Local Government Expenditures,  
Ranking Under Two Measures in Selected Years**

	<u>Expenditures Per \$1,000 of Personal Income</u>			<u>Expenditures Per Capita</u>		
	<u>Amount</u>	<u>Rank</u>	<u>Difference from U.S. Average</u>	<u>Amount</u>	<u>Rank</u>	<u>Difference from U.S. Average</u>
1998-99	\$221.62	22	3.4%	\$5,939.50	14	1.9%
2003-04	241.66	25	1.1	7,703.50	19	-0.5
2008-09	240.74	27	0.5	9,311.68	24	-4.6
2013-14	234.04	26	1.0	9,971.38	26	-2.5

Sources: U.S. Census Bureau and Bureau of Economic Analysis.

5. As noted above, Wisconsin's income tax structure is described as cumulative, meaning that each of the rates applies only to income within the corresponding tax bracket. Therefore, a taxpayer with income exceeding the threshold for the top tax bracket would have income subject to each of the four tax rates. As a result, the proposal's impact would not be limited to taxpayers with income at or below the third tax bracket, but, instead, would affect almost all taxpayers. Analysis by DOR indicates that 70.3% of all tax filers in 2017 would experience a tax decrease. Tax filers without a decrease would include those with no tax liability under current law, taxpayers subject to the alternative minimum tax, and some part-year residents or non-residents. A distributional analysis of the Governor's proposal for tax year 2017 is included as Attachment 1 to this paper.

6. For taxpayers with a tax reduction, Attachment 1 shows that the average reduction would be \$44, or -1.21%. On average, taxpayers with AGI between \$30,000 and \$40,000 would experience the largest percentage reduction in net tax liability (-3.28%). That percentage would decrease as AGI increases, and the percentage reduction for taxpayers with \$1 million or more of AGI would be 0.04%. While the average tax decrease percentages decline as AGI rises, the average tax reduction increases. However, the average tax reduction would plateau at \$67 for taxpayers with AGI between \$100,000 and \$300,000, and then would decline slightly. The average tax reduction for taxpayers with AGI of \$1 million or more is estimated at \$64.

7. In addition to the rate reductions, the Governor proposes to widen the second tax bracket by increasing the income threshold separating the second and third tax brackets. Combined, this change and the proposed change in tax rates would result in tax reductions for taxpayers with income at or above the proposed threshold equal to \$70 for married, joint filers, \$52 for single filers, and \$35 for married, separate filers. The third tax bracket is considerably wider than the first or second tax brackets (see table on page 2). An estimated 66% of Wisconsin income subject to the individual income tax falls within this bracket. Raising the income threshold between the second and third tax brackets could be portrayed as a tax reduction that benefits middle income taxpayers.

8. A variety of other modifications could be made to the rate and bracket structure that would have the same impact on tax collections. For example, another way to reduce rates would be with an across-the-board approach (Alternative 2). Reducing each of the four rates by 1.0% would result in marginal rates of 3.96%, 5.78%, 6.21%, and 7.57% and would decrease tax collections by amounts similar to the Governor's proposal on a fiscal year basis. However, the tax year 2017 reduction is about \$2 million less than the amount under the Governor's proposal due to taxpayers who make estimated payments.

9. This across-the-board alternative has a different distributional impact than the Governor's proposal and is displayed in Attachment 2. Among taxpayers receiving a tax decrease, the percentage decrease under this alternative varies less by AGI, ranging from 1.08% for taxpayers with an AGI of \$5,000 to \$10,000 to 1.50% for taxpayers with AGI of \$1 million or more. However, considerable variation in the average dollar reduction would result, and would increase from \$1 for taxpayers with AGI less than \$5,000 to \$2,302 for taxpayers with AGI of 1 million or more. For taxpayers with a tax reduction, Attachment 2 reflects an average reduction of \$43, or 1.19%.

10. One characteristic of the individual income tax that distinguishes it from other tax sources is that it is based on ability to pay. In addition to Wisconsin, 42 other states and the District of Columbia impose state income taxes, but the structure of these taxes varies considerably from state to state. Tax structures are described as progressive when higher income taxpayers pay a larger percentage of their income in taxes than lower income taxpayers, while tax structures are characterized as regressive when lower income taxpayers pay a larger percentage of their income in taxes than higher income taxpayers. The Wisconsin income tax has a number of features that contribute to its progressivity such as its graduated rate structure, refundable tax credits targeted to low-income individuals, such as the earned income and homestead tax credits, and the sliding scale standard deduction.

11. One way to enhance the progressivity of Wisconsin's income tax would be to structure the personal exemption more like the sliding scale standard deduction. Currently, a personal exemption of \$700 is provided for each taxpayer, taxpayer's spouse, and each individual claimed as a dependent. Among the states that offer a personal exemption (as opposed to a personal exemption credit), Wisconsin's personal exemption is the lowest. Wisconsin's personal exemption could be modified by increasing the exemption amount and phasing down that amount between two income levels to the current \$700 level. In order to achieve approximately the same fiscal year revenue reduction as that in the Governor's proposal, the personal exemption could be increased by \$1,900 for each taxpayer and taxpayer's spouse (Alternative 3). Based on filing status, the personal exemption would phase down to \$700 (\$1,400 for married joint filers) based on the income thresholds reported in Table 4. A \$700 exemption would continue to be provided to dependents.

**TABLE 4**

**Factors Used to Calculate a Two-Tiered Personal Exemption by Filing Status  
Tax Year 2017**

	<u>Single</u>	<u>Married, Joint</u>	<u>Married, Separate</u>	<u>Head-of- Household</u>
Minimum Exemption	\$700	\$1,400	\$700	\$700
Maximum Exemption	2,600	5,200	2,600	2,600
Phase-Down Income	12,000	20,000	10,000	14,000
Maximum Income	60,000	100,000	50,000	70,000
Phase-Down Percent	3.96%	4.75%	4.75%	3.39%

12. Attachment 3 displays this proposal's estimated distributional effects. Among taxpayers with a tax decrease, the largest percentage reduction is estimated for taxpayers with AGI between \$10,000 and \$15,000 (41.17%), but that percentage decreases as income increases until AGI exceeds \$100,000 when the phase-down is complete. Also due to the phase-down, only 47.4% of all taxfilers would receive a tax reduction under this alternative, compared to 70% under the two other alternatives. Since the tax reduction would be targeted to a smaller number of taxfilers, the average tax reduction is larger (\$70) than under the two other alternatives. However, there is less variation in average reduction amounts by AGI, which range from a low of \$10 to a high of only \$93.

13. At the national level, debate over the federal income tax has focused on broadening the tax base and lowering marginal tax rates. The income tax has been criticized for distorting economic outcomes because it favors certain activities through exclusions for certain types of income, deductions for certain types of expenses, and tax credits for taxpayers meeting certain requirements. By eliminating various exclusions, deductions, and tax credits, the Committee could offer a larger tax rate reduction than the one proposed by the Governor. The three alternatives offered in this paper are ways to modestly lower taxes, but they are not efforts at tax reform. If the Committee wants to pursue tax reform, it could reject the three alternatives (Alternative 4) and leave the tax reduction funding in the general fund's balance. After enactment of the budget, the Legislature could

study the state tax system and recommend changes.

## ALTERNATIVES

1. Approve the Governor's proposal to reduce the marginal tax rates that apply to income that falls within the bottom two income brackets of the state's individual income tax from 4.0% to 3.9% and from 5.84% to 5.74% and increase the income threshold separating the second and third tax brackets beginning in tax year 2017. Modify the indexing provisions included in the Governor's proposal by retaining the current law indexing provisions while referencing the new rates that correspond to each existing bracket, as recommended by DOA in an errata submission. Compared to current law, these provisions would decrease individual income tax collections by an estimated \$104,377,700 in 2017-18 and \$99,076,900 in 2018-19.

<b>ALT 1</b>	<b>Change to Base</b>	<b>Bill</b>
GPR	- \$203,454,600	\$0

2. Delete the Governor's proposal, and instead, reduce each of the four rates under current law provisions by 1.0%. Set the rate for the first tax bracket at 3.96%, for the second tax bracket at 5.78%, for the third tax bracket at 6.21%, and for the fourth tax bracket at 7.57%, beginning in tax year 2017. Compared to current law, these provisions would decrease individual income tax collections by amounts similar to those under the Governor's proposal.

<b>ALT 2</b>	<b>Change to Base</b>	<b>Bill</b>
GPR-Tax	- \$203,454,600	\$0

3. Delete the Governor's proposal, and instead, increase the personal exemption for each tax filer and each tax filer's spouse by \$1,900, beginning in tax year 2017. Specify that the personal exemption phase down: (a) from \$2,600 to \$700 for single filers with Wisconsin adjusted gross income between \$12,000 and \$60,000, based on a 3.96% phase-down rate; (b) from \$5,200 to \$1,400 for married, joint filers with Wisconsin adjusted gross income between \$20,000 and \$100,000, based on a 4.75% phase-down rate; (c) from \$2,600 to \$700 for married, separate filers with Wisconsin adjusted gross income between \$10,000 and \$50,000, based on a 4.75% phase-down rate; and (d) from \$2,600 to \$700 for head-of-household filers with Wisconsin adjusted gross income between \$14,000 and \$70,000, based on a 3.39% phase-down rate. Retain current law provisions regarding personal exemptions for dependents and for individuals 65 years of age or older. Compared to current law, these provisions would decrease individual income tax collections by amounts similar to those under the Governor's proposal.

<b>ALT 3</b>	<b>Change to Base</b>	<b>Bill</b>
GPR-Tax	- \$203,454,600	\$0

4. Delete the Governor's proposal.

<b>ALT 4</b>	<b>Change to Base</b>	<b>Bill</b>
GPR-Tax	\$0	\$203,454,600

Prepared by: Rick Olin  
Attachments



## ATTACHMENT 1

### Distribution of Taxpayers with an Income Tax Decrease Under Governor's Proposal to Decrease the Two Bottom Income Tax Rates and Widen the Second Tax Bracket, Tax Year 2017

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease						Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Decrease	Percent of Decrease	Average Decrease	Percent Decrease		
Under \$5,000	31,630	1.46%	-\$62,661	0.07%	-\$2	-2.02%	500,493	6.3%
5,000 to 10,000	24,804	1.15	-110,673	0.12	-4	-1.90	233,670	10.6
10,000 to 15,000	71,856	3.32	-265,240	0.28	-4	-2.30	192,777	37.3
15,000 to 20,000	123,158	5.69	-872,156	0.92	-7	-3.00	181,362	67.9
20,000 to 25,000	144,284	6.66	-1,704,668	1.80	-12	-3.00	173,508	83.2
25,000 to 30,000	151,683	7.00	-2,497,900	2.63	-16	-2.67	167,464	90.6
30,000 to 40,000	292,412	13.50	-9,447,184	9.95	-32	-3.28	298,429	98.0
40,000 to 50,000	235,601	10.88	-10,564,852	11.12	-45	-2.87	237,168	99.3
50,000 to 60,000	182,424	8.42	-10,531,654	11.09	-58	-2.71	183,367	99.5
60,000 to 70,000	148,608	6.86	-9,043,002	9.52	-61	-2.27	149,220	99.6
70,000 to 80,000	124,220	5.74	-7,805,270	8.22	-63	-1.93	124,620	99.7
80,000 to 90,000	105,430	4.87	-6,795,165	7.16	-64	-1.68	105,756	99.7
90,000 to 100,000	88,728	4.10	-5,815,676	6.12	-66	-1.48	88,971	99.7
100,000 to 125,000	162,923	7.52	-10,845,754	11.42	-67	-1.23	163,340	99.7
125,000 to 150,000	95,246	4.40	-6,401,195	6.74	-67	-0.99	95,501	99.7
150,000 to 200,000	87,162	4.02	-5,857,679	6.17	-67	-0.76	87,513	99.6
200,000 to 250,000	34,690	1.60	-2,320,129	2.44	-67	-0.57	34,960	99.2
250,000 to 300,000	17,506	0.81	-1,166,953	1.23	-67	-0.45	17,743	98.7
300,000 to 500,000	24,775	1.14	-1,644,364	1.73	-66	-0.31	25,670	96.5
500,000 to 1,000,000	12,796	0.59	-840,241	0.88	-66	-0.16	13,158	97.2
1,000,000 and over	5,820	0.27	-374,141	0.39	-64	-0.04	6,146	94.7
<b>Total</b>	<b>2,165,756</b>	<b>100.00%</b>	<b>-\$94,966,557</b>	<b>100.00%</b>	<b>-\$44</b>	<b>-1.21%</b>	<b>3,080,836</b>	<b>70.3%</b>

Source: Department of Revenue simulation of tax year 2015 returns inflated to tax year 2017.

- An estimated 2,165,756 of all tax filers (70.3%) in 2017 would have a tax decrease under the proposal.
- The total decrease is estimated at \$95.0 million in tax year 2017.
- For taxpayers with a tax reduction, the average 2017 tax decrease would be \$44. The average tax decrease would increase as income rises.
- On average, taxpayers with WAGI between \$30,000 and \$40,000 would experience the largest percentage reduction in net tax liability (3.28%), but that average decreases as WAGI increases.
  - Taxpayers with WAGI greater than \$100,000 comprise 20.4% of those who would receive a tax reduction, and would receive 31.0% of the \$95.0 million total decrease. These taxpayers have 53.3% of WAGI and pay 63.8% of individual income taxes under current law.
  - Taxfilers without a tax decrease would include those with no tax liability under current law, taxpayers subject to the alternative minimum tax, and some part-year residents and non-residents.

## ATTACHMENT 2

### Distribution of Taxpayers with an Income Tax Decrease Under Proposal for an Across-the-Board Reduction in Tax Rates, Tax Year 2017

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease						Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Decrease	Percent of Decrease	Average Decrease	Percent Decrease		
Under \$5,000	27,070	1.25%	-\$37,506	0.04%	-\$1	-1.17%	500,493	5.4%
5,000 to 10,000	23,362	1.08	-65,767	0.07	-3	-1.08	233,670	10.0
10,000 to 15,000	60,316	2.79	-128,308	0.14	-2	-1.13	192,777	31.3
15,000 to 20,000	123,169	5.70	-382,046	0.41	-3	-1.31	181,362	67.9
20,000 to 25,000	145,049	6.72	-740,358	0.80	-5	-1.30	173,508	83.6
25,000 to 30,000	152,901	7.08	-1,175,581	1.27	-8	-1.25	167,464	91.3
30,000 to 40,000	294,642	13.64	-3,504,090	3.77	-12	-1.21	298,429	98.7
40,000 to 50,000	237,234	10.98	-4,310,351	4.64	-18	-1.17	237,168	100.0
50,000 to 60,000	183,394	8.49	-4,493,474	4.84	-25	-1.16	183,367	100.0
60,000 to 70,000	149,366	6.92	-4,601,352	4.95	-31	-1.15	149,220	100.1
70,000 to 80,000	124,739	5.77	-4,645,725	5.00	-37	-1.15	124,620	100.1
80,000 to 90,000	105,851	4.90	-4,642,840	5.00	-44	-1.15	105,756	100.1
90,000 to 100,000	89,056	4.12	-4,511,833	4.86	-51	-1.15	88,971	100.1
100,000 to 125,000	163,510	7.57	-10,149,741	10.92	-62	-1.15	163,340	100.1
125,000 to 150,000	95,580	4.42	-7,415,454	7.98	-78	-1.14	95,501	100.1
150,000 to 200,000	87,607	4.06	-8,613,697	9.27	-98	-1.12	87,513	100.1
200,000 to 250,000	34,926	1.62	-4,500,388	4.84	-129	-1.10	34,960	99.9
250,000 to 300,000	17,692	0.82	-2,812,976	3.03	-159	-1.08	17,743	99.7
300,000 to 500,000	25,219	1.17	-5,824,448	6.27	-231	-1.09	25,670	98.2
500,000 to 1,000,000	13,115	0.61	-6,089,375	6.55	-464	-1.14	13,158	99.7
1,000,000 and over	<u>6,203</u>	<u>0.29</u>	<u>-14,278,550</u>	<u>15.37</u>	<u>-2,302</u>	<u>-1.50</u>	<u>6,146</u>	100.9
<b>Total</b>	<b>2,160,001</b>	<b>100.00%</b>	<b>-\$92,923,860</b>	<b>100.00%</b>	<b>-\$43</b>	<b>-1.19%</b>	<b>3,080,836</b>	<b>70.1%</b>

Source: Department of Revenue simulation of tax year 2015 returns inflated to tax year 2017.

- An estimated 2,160,001 of all tax filers (70.1%) in 2017 would have a tax decrease under the proposal.
- The total decrease is estimated at \$92.9 million in tax year 2017.
- For taxpayers with a tax reduction, the average 2017 tax decrease would be \$43. The average tax decrease would increase as income rises.
- On average, taxpayers with WAGI of \$1 million or more would experience the largest percentage reduction in net tax liability (1.50%), but the percentage decrease is relatively uniform among other WAGI groupings.
  - Taxpayers with WAGI greater than \$100,000 comprise 20.6% of those who would receive a tax reduction, and would receive 64.2% of the \$92.9 million total decrease. These taxpayers have 53.3% of WAGI and pay 63.8% of individual income taxes under current law.
  - Taxfilers without a tax decrease would include those with no tax liability under current law, taxpayers subject to the alternative minimum tax, and some part-year residents and non-residents.

### ATTACHMENT 3

#### Distribution of Taxpayers with an Income Tax Decrease Under Proposal to Increase the Personal Exemption for Some Taxpayers, Tax Year 2017

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease						Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Decrease	Percent of Decrease	Average Decrease	Percent Decrease		
Under \$5,000	12,625	0.86%	-\$128,385	0.12%	-\$10	-13.05%	500,493	2.5%
5,000 to 10,000	11,466	0.78	-262,811	0.26	-23	-11.89	233,670	4.9
10,000 to 15,000	51,609	3.53	-2,482,930	2.41	-48	-41.17	192,777	26.8
15,000 to 20,000	108,733	7.44	-6,524,350	6.35	-60	-29.21	181,362	60.0
20,000 to 25,000	136,985	9.37	-9,600,473	9.34	-70	-19.01	173,508	79.0
25,000 to 30,000	146,731	10.04	-11,398,642	11.09	-78	-13.05	167,464	87.6
30,000 to 40,000	285,824	19.55	-23,773,801	23.12	-83	-8.60	298,429	95.8
40,000 to 50,000	230,529	15.77	-17,933,089	17.44	-78	-5.05	237,168	97.2
50,000 to 60,000	168,155	11.50	-11,919,188	11.59	-71	-3.43	183,367	91.7
60,000 to 70,000	90,458	6.19	-8,385,080	8.16	-93	-3.87	149,220	60.6
70,000 to 80,000	79,534	5.44	-5,910,042	5.75	-74	-2.49	124,620	63.8
80,000 to 90,000	76,592	5.24	-3,434,681	3.34	-45	-1.23	105,756	72.4
90,000 to 100,000	62,595	4.28	-1,059,841	1.03	-17	-0.40	88,971	70.4
100,000 to 125,000	0	0.00	0	0.00	0	0.00	163,340	0.0
125,000 to 150,000	0	0.00	0	0.00	0	0.00	95,501	0.0
150,000 to 200,000	0	0.00	0	0.00	0	0.00	87,513	0.0
200,000 to 250,000	0	0.00	0	0.00	0	0.00	34,960	0.0
250,000 to 300,000	0	0.00	0	0.00	0	0.00	17,743	0.0
300,000 to 500,000	0	0.00	0	0.00	0	0.00	25,670	0.0
500,000 to 1,000,000	0	0.00	0	0.00	0	0.00	13,158	0.0
1,000,000 and over	0	0.00	0	0.00	0	0.00	6,146	0.0
<b>Total</b>	<b>1,461,836</b>	<b>100.00%</b>	<b>-\$102,813,313</b>	<b>100.00%</b>	<b>-\$70</b>	<b>-4.78%</b>	<b>3,080,836</b>	<b>47.4%</b>

Source: Department of Revenue simulation of tax year 2015 returns inflated to tax year 2017.

- An estimated 1,461,836 of all tax filers (47.4%) in 2017 would have a tax decrease under the proposal.
- The total decrease is estimated at \$102.8 million in tax year 2017.
- For taxpayers with a tax reduction, the average 2017 tax decrease would be \$70. The average tax decrease would initially increase as income rises and then decline to \$0 for higher income taxpayers.
  - On average, taxpayers with WAGI between \$10,000 and \$15,000 would experience the largest percentage reduction in net tax liability (41.17%), but that percentage decreases as WAGI increases due to the phase-down.
  - Taxpayers with WAGI greater than \$100,000 would not receive a tax reduction because their WAGI is above the proposed maximum income threshold. These taxpayers have 53.3% of WAGI and pay 63.8% of individual income taxes under current law.
  - In addition to those filers with WAGI above the proposed maximum income threshold, taxpayers without a tax decrease would include those with no tax liability under current law, taxpayers subject to the alternative minimum tax, and some part-year residents and non-residents.