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Child and Dependent Care Expenses Tax Credit (General Fund Taxes -- Income and Franchise Taxes)

[LFB 2021-23 Budget Summary: Page 209, #7]

CURRENT LAW

Federal law provides a nonrefundable individual income tax credit for child and dependent care expenses that are paid for the purpose of enabling a taxpayer to be gainfully employed. The maximum amount of expenses that can be claimed for the federal credit (maximum creditable expenses) is $3,000 if the claimant has one qualifying child or dependent and $6,000 if the claimant has more than one qualifying child and/or dependent. The credit is calculated as a percentage of eligible expenses (reimbursement percentage), with the reimbursement percentage ranging from 35% to 20%, depending on the claimant's federal adjusted gross income (AGI). For tax year 2020, the maximum reimbursement percentage of 35% begins to phase down once federal AGI exceeds $15,000. The minimum reimbursement percentage (20%) is provided once a taxpayer's federal AGI reaches $43,000.

Expenses related to child and dependent care are deductible from income for state tax purposes. The deduction equals up to $3,000 for one qualified individual and up to $6,000 for more than one qualified individual. The deduction is based on the expenses claimed for purposes of the aforementioned federal credit, and must be deducted for the same taxable year as the year to which the claim for the federal credit relates.

Eligible claims for the federal credit must satisfy several tests, including a qualifying person test. Under the federal provisions, a qualifying person includes: (a) the claimant's qualifying child, who is the claimant's dependent and who was under the age of 13 when the care was provided; (b) the claimant's spouse who was physically or mentally not able to care for himself or herself and lived with the claimant for more than half the year; and (c) a person who was physically or mentally not able to care for himself or herself, lived with the claimant for more than half the year, and, with certain exceptions, was the claimant's dependent.

The following federal tests must also be met to claim the child and dependent care credit: (a) with an exception related to being a student, the individual claiming the credit (and the individual's spouse, if married) must have earned income during the year; (b) the child and dependent care expenses must be paid so that the individual claiming the credit (and the individual's spouse, if married) can work or look for work; (c) the payments for the child and dependent care must be made to someone who cannot be claimed as a dependent of the individual claiming the credit or the individual's spouse; (d) in general, the claimant's filing status must be single, head-of-household, qualifying widow(er) with dependent child, or married filing jointly; and (e) the care provider must be identified on the claimant's tax return. In addition, if a claimant excludes or deducts dependent care benefits provided by a dependent care benefit plan, the total amount excluded or deducted under such a plan must be less than the dollar limit for qualifying expenses under the credit. This dollar limit ($3,000 for one qualifying individual or $6,000 for more than one qualifying individual) is reduced by the amount of such dependent care benefits.

BACKGROUND

Federal law has provided a child and dependent care tax credit since 1976. The state's child and dependent care deduction took effect in tax year 2011. The deduction was phased in over a four-year period starting in tax year 2011 (at which time the maximum deduction was $750 or $1,500 for taxpayers with two or more qualifying dependents). The maximum deduction increased each year until reaching the current amounts in tax year 2014. Over this four-year period, the maximum deduction amount increased by $750 each year (or $1,500 each year for taxpayers with two or more qualifying dependents).

DISCUSSION POINTS

1. For tax year 2021 only, the American Rescue Plan Act of 2021 (ARPA) expands the federal child and dependent care tax credit as follows. The Act increases the maximum creditable expenses from $3,000 to $8,000 for claimants with one qualifying dependent, and from $6,000 to $16,000 for claimants with two or more qualifying dependents. In addition, ARPA raises the maximum reimbursement percentage from 35% to 50%, and increases the federal AGI level at which the percentage begins to phase down from $15,000 to $125,000. As a result of these expanded parameters, the maximum credit for tax year 2021 is increased for claimants under the initial phase-out income with one qualifying dependent from $1,050 to $4,000, and for such claimants with two or more qualifying dependents from $2,100 to $8,000. In addition, the credit is made refundable for U.S. resident taxpayers. ARPA reduces the minimum reimbursement percentage (currently 20%) for tax year 2021 by one percentage point for every $2,000 of federal AGI in excess of $400,000. Therefore, the credit is disallowed for a claimant with $440,000 or more of federal AGI.

2. The Committee could decide to create a nonrefundable state individual income tax credit for child and dependent care expenses beginning in tax year 2021 (Alternative 1). Such a credit could

be set equal to 50% of the amount of the federal child and dependent care expenses tax credit (set forth under the Internal Revenue Code, or IRC) that a claimant is eligible to claim on the claimant's federal income tax return for the same tax year. To avoid providing a double tax benefit on the same income, the current law deduction for household and dependent care expenses would be sunset concurrently, beginning in tax year 2021.

No state child and dependent care expenses tax credit would be allowed unless it were claimed within four years of the unextended due date of the income tax return to which the claim relates. Nonresidents and part-year residents of Wisconsin would be prohibited from claiming the credit. No credit could be allowed for a tax year covering a period of less than 12 months, except for a tax year that was closed because of the death of the taxpayer. Current law provisions which apply to the individual income tax and relate to DOR's enforcement authority, and to assessments, refunds, appeals, collection, interest, and penalties, would also apply to this credit. Couples who are married at the end of a tax year would be required to claim the credit as married-joint filers for that tax year, except married persons living apart and treated as single under the IRC could claim the credit as if a single or head-of-household claimant.

A similar proposal is included in Assembly Bill 68/Senate Bill 111, and was estimated to decrease individual income tax collections by $9.8 million annually in 2021-22 and 2022-23. However, that proposal was introduced prior to the passage of ARPA, so it did not consider the expanded federal credit parameters for tax year 2021. Alternative 1 is based on these expanded federal credit parameters for tax year 2021, and is now estimated to reduce individual income tax revenues by $31.3 million in 2021-22 ($21.5 million higher than previously estimated).

3. As a matter of tax policy, some experts generally prefer tax credits over deductions from income. Deductions treat taxpayers differently depending on the taxpayer's income and tax bracket. For example, a $2,000 deduction from income would provide a tax reduction of $71 to a taxpayer whose taxable income falls entirely within the state's 3.54% tax bracket, and a $153 tax reduction to a taxpayer whose last $2,000 of taxable income is subject to the state's 7.65% marginal tax rate. Based on the same $2,000 expense, a 6% tax credit would result in a $120 tax reduction regardless of the taxpayer's income, thereby providing more uniform treatment to taxpayers incurring the same expense amount.

4. Each of the state's largest nonrefundable tax credits for individuals is based on a single credit rate -- 12% for the property tax/rent credit, 5% for the itemized deduction credit, and 3% for the married couple credit. While the proposed credit would be calculated using a single credit rate of 50% of the federal credit, the state credit would be based on the federal child and dependent care credit, which uses 16 separate credit rates. The temporary expanded parameters for the federal credit were described above. Under the permanent credit parameters beginning in tax year 2022, these percentages phase down from 35% for claimants whose federal AGI is below $15,000, to 20% for claimants whose federal AGI is over $43,000. Based on $6,000 in eligible expenses, the maximum state credit would equal $1,050 for a claimant with federal AGI of $15,000 or less and $600 for a claimant with federal AGI of more than $43,000. As a result of the sliding scale in the federal credit rate, a lower-income taxpayer with the same eligible child or dependent care expenses as a higher-income taxpayer would receive a larger state credit under the credit structure proposed in this paper.

5. The credit under Alternative 1 would reduce individual income tax collections by an estimated $50.2 million in tax year 2021 and $28.7 million in tax year 2022. Because the proposal would sunset the current law deduction for child and dependent care expenses, which already reduces state tax revenue by an estimated $18.9 million annually, the net effect of the proposed credit would be to reduce individual income tax collections relative to current law by an estimated $31.3 million in tax year 2021 and $9.8 million in tax year 2022.

6. Attachment 1 reports the estimated distribution of taxpayers with a tax decrease under Alternative 1 for tax year 2021 and tax year 2022. An estimated 109,970 taxpayers in tax year 2021, and 106,840 taxpayers in tax year 2022, would experience a tax decrease. The average tax reduction would equal $285 in tax year 2021 and $91 in tax year 2022. For tax year 2021, claimants with Wisconsin AGI of $100,000 or more would receive a larger average tax reduction ($364) than claimants with AGI under $100,000 ($209). This is most likely the result of those claimants having a higher number of eligible children and/or higher average child care costs. For tax year 2021, taxpayers with AGI of less than $100,000 represent 51.2% of the taxpayers with a tax reduction, and they would receive 37.7% of the total tax decrease. Taxpayers with AGI of $100,000 or more would receive 62.3% of the estimated tax decrease and represent 48.8% of the taxpayers with a tax decrease in tax year 2021. The small percentage of filers receiving a tax decrease (just over 3% in both years) is due to the credit being limited to taxpayers with children who are under 13 years of age and in daycare, or to taxpayers with a spouse or dependent with certain disabilities.

7. Biennially, this office reviews the income tax provisions in each state with an individual income tax. For tax year 2019, this review reveals that six states, including Wisconsin, offered a deduction for child and dependent care expenses based on the federal definition of eligible expenses or otherwise modeled after the federal credit. Idaho, Maryland, and Virginia structured their deduction similarly to Wisconsin's deduction, while Massachusetts offered a higher limitation on deductible expenses -- up to $4,800 for one child and $9,600 for two or more children. Montana allowed a deduction for individuals who care for a dependent under the age of 15, provided the individual's Montana AGI is below certain thresholds. Maryland also provided a refundable credit for individuals with federal AGI below specified thresholds.

8. A tax credit for child and dependent care expenses was offered in 23 states in tax year 2019. Generally, these states' credits are calculated either as a percentage of the federal credit or as a percentage of eligible federal expenses, although there is considerable variation in the percentages employed. Several states employ multiple percentages.

9. Child and dependent care tax credits are refundable in 11 of the 23 states that offered a credit in tax year 2019. Making the proposed credit refundable (Alternative 2) would increase the cost of the credit by $6.1 million in 2021-22 and $2.8 million annually beginning in 2022-23. The average tax reduction in tax year 2021 would be about $35 higher than under a nonrefundable credit. Also, there would be 7,080 additional claimants. Generally, these are filers with no net tax liability under current law.

10. Refundable credit claims are paid from sum sufficient GPR appropriations. Therefore, the cost of the credit under Alternative 2 would be reflected as an increase in GPR expenditures, estimated at $56.4 million in 2021-22 and $31.5 million in 2022-23. Because Alternative 2 would

also sunset the child and dependent care deduction offered under current law beginning in tax year 2021, individual income tax collections would increase by an estimated $18.9 million in 2021-22 and 2022-23 compared to current law. Therefore, the estimated net effect of Alternative 2 on the state's general fund would be a decrease relative to current law of $37.4 million in 2021-22 and $12.6 million in 2022-23.

11. It should be noted that the tax year 2021 fiscal estimates for Alternatives 1 and 2 are based on 2018 federal tax data from the Internal Revenue Service. Because Alternatives 1 and 2 include expenditure limits for tax year 2021 which are different from the limits that typically apply to the federal credit, the state aggregate statistics are not sufficient to produce the estimates. This differs from the fiscal estimate for Alternative 3, and the tax year 2022 fiscal estimates for Alternatives 1 and 2, which are based on 2018 state aggregate taxpayer data.

12. Due to the COVID-19 pandemic, there is additional uncertainty involved in using tax year 2018 data to represent child care expenses incurred in tax year 2021. Some taxpayers may have incurred additional child care expenses due to pandemic-induced school closures, while others may have been able to supervise their children while they worked from home, thereby incurring fewer expenses. The aggregate impact of behavioral changes on child care expenses during 2020 and 2021 is unclear. For these reasons, additional caution should be applied when interpreting the fiscal estimate in 2021-22 for Alternatives 1 and 2.

13. Attachment 2 displays the estimated distribution of taxpayers with a tax decrease under Alternative 2 for tax year 2021 and tax year 2022. An estimated 117,050 taxpayers in tax year 2021 and 114,460 taxpayers in tax year 2022 would experience a tax decrease. The average tax reduction would equal $320 in tax year 2021 and $110 in tax year 2022. Taxpayers with Wisconsin AGI of $100,000 or more would receive a larger average tax reduction ($365) than taxpayers with AGI under $100,000 ($281) in tax year 2021. This is most likely the result of those claimants having a higher number of eligible children and/or higher average child care costs. However, in tax year 2022, as the lower expenditure limits and lower income phaseout thresholds in effect for tax year 2020 are resumed under the federal credit, filers with AGI under $100,000 would receive a larger average tax reduction ($126) than filers with AGI of $100,000 or more ($94). As under Alternative 1, the small percentage of filers receiving a tax decrease (fewer than 4% in both years) is due to the credit being limited to taxpayers with children who are under 13 years of age and in daycare, or to taxpayers with a spouse or dependent with certain disabilities.

14. The Committee could choose to specify that the expanded federal parameters provided under ARPA for tax year 2021 do not apply to the credit provided under Alternative 1 or 2 (whichever the Committee selects to adopt). If the expanded federal credit parameters were not applied to the credit under Alternative 1 for tax year 2021, the cost of the credit would decrease by $21.5 million in 2021-22 relative to the fiscal effect currently shown for Alternative 1. If the expanded federal credit parameters were not applied to the credit under Alternative 2 for tax year 2021, the cost of the credit would decrease by $24.8 million in 2021-22 relative to the fiscal effect currently displayed for Alternative 2.

15. Under Alternatives 1 and 2, the child and dependent care credit would be limited to between 109,970 and 117,050 taxpayers with employment-related child and dependent care expenses

in tax year 2021. As noted above, these claimants would comprise fewer than 4% of all tax filers in either alternative. The proposed credit would not be available to families in which the caregiver refrains from seeking employment in order to provide care for a child or dependent, or to families with children who are 13 years of age or older. One way to broaden the scope of the credit would be to extend the credit to all filers with children or dependents.

16. A separate federal tax credit, called the child tax credit, may be claimed by individuals with children under 17 years of age, provided the taxpayer can claim the children as dependents. The credit equals $2,000 per child and phases out for claimants with incomes above $400,000 for married-joint filers and $200,000 for all other filers. The credit consists of both nonrefundable and refundable components. A nonrefundable credit of $500 is also provided for each of the claimant's other dependents, such as children 17 years of age or older and other relatives of the taxpayer. These provisions represent a temporary expansion of the federal credit, which was authorized under the federal Tax Cuts and Jobs Act of 2017 (TCJA).

17. There were approximately 1.52 million dependents claimed by Wisconsin taxpayers in tax year 2019, which implies that about $3.0 billion in federal child tax credits were claimed by Wisconsin filers that year. Because converting the child and dependent care deduction to a credit is estimated to reduce individual income tax revenues by $9.8 million annually beginning in 2022-23, a state child tax credit at that funding level would only equal about 0.3% of the initial federal credit (prior to its division between nonrefundable and refundable) or about $6 per dependent. Taxpayers may regard such a small credit as more of a nuisance to calculate than as a tax benefit. Another reason not to base a state credit on the federal child tax credit is that the expansion of the federal credit under the TCJA (described in the preceding discussion point) was authorized on a temporary basis for tax years 2018 through 2025. The expansion of the credit was tied to the TCJA's elimination of personal exemptions for the same time period.

18. Under Wisconsin's individual income tax, a $700 personal exemption is provided for each taxpayer and taxpayer's spouse, as well as for each individual claimed as a dependent. For an individual with income subject to the state's 6.27% tax rate, a $700 personal exemption would equate to a $44 tax reduction. An additional $250 exemption is provided for each taxpayer who has reached the age of 65 before the end of the tax year (a $16 tax reduction if taxed at the 6.27% rate). By eliminating the personal exemption for dependents (which is estimated to reduce individual income tax revenues by $54 million in tax year 2021 under current law), and combining this tax savings with the $9.8 million related to the ongoing cost of the credit under Alternative 1, a nonrefundable state child tax credit of $50 per dependent could be provided, beginning in tax year 2021 (Alternative 3). The personal exemption for filers and their spouses, and the additional personal exemption for persons 65 years of age or older, would not be eliminated since that would cause individuals without children to experience a tax increase. Also, a credit of $50 per dependent would not employ an income phaseout. Incorporating an income phaseout could allow for a higher per child credit rate at the same overall cost, but would also cause some taxpayers to experience a tax increase. Alternative 3 would retain the current law child and dependent care expense deduction.

19. Attachment 3 displays the distribution of taxpayers receiving a tax decrease under Alternative 3. An estimated 694,450 taxpayers, or 21.7% of all tax filers, would experience tax

decreases totaling $11.0 million. The average tax reduction would equal $16. Claimants with Wisconsin AGI of less than $100,000 would receive a larger average decrease ($18) than claimants with AGI of $100,000 or more ($12). Claimants with AGI of less than $100,000 represent 65.8% of the taxpayers with a tax reduction, and they would receive 74.6% of the total tax decrease. Claimants with AGI of $100,000 or more would receive 25.4% of the estimated tax decrease and represent 34.2% of the taxpayers with a tax decrease.

20. The cost of the credit would be reduced by an estimated $159,000 due to about 24,000 taxpayers who would experience a tax increase, equaling $7 on average. For these taxpayers, the tax reduction resulting from the $700 personal exemption exceeds the tax reduction resulting from a $50 tax credit. These would be taxpayers who are subject to the state's 7.65% marginal tax rate, the top tax bracket, since a tax benefit of $50 represents only 7.14% of a $700 reduction in income. With the offset provided by this tax increase, the net effect of this alternative would be to reduce individual income tax collections by an estimated $10.8 million annually, beginning in 2021-22.

21. It should be noted that Alternative 3 in LFB Paper #320 would provide a refundable individual income tax credit of $30, beginning in tax year 2021, for each of a taxpayer's children who are under the age of three. That credit is intended to approximate the annual average sales tax paid for diapers. If such a credit were provided to all eligible taxpayers regardless of their income, GPR expenditures would increase by an estimated $5.2 million annually. This proposal, together with the nonrefundable child tax credit under Alternative 3 of this paper, would provide an estimated $15.2 million of individual income tax relief annually, and would provide a total credit of $80 to taxpayers with children under the age of three.

22. As a policy distinction, some tax experts object to tax credits (and tax expenditures in general) because they characterize as tax reductions what are functionally spending increases. Generally, tax credits are designed to incentivize certain behaviors. In this case, the federal child and dependent care expenses credit is primarily intended to encourage individuals with dependents to seek child care so that they can be employed. By running a credit through the income tax system to subsidize what are ultimately work-related expenses, it could be argued that the federal government is operating a workforce spending program by means of a tax cut. Some experts argue that such an approach obscures the true nature of the tax credit as a spending program, which can then complicate lawmakers' and citizens' ability to make informed decisions on the policy merits of such a program. They might contend that, if the goal is to subsidize taxpayers with children in order for them to be employed, a better approach might be to provide funding directly to employers so that they can provide, or otherwise subsidize, child care services for their employees. If the Committee similarly decides that a tax credit for child care expenses is not the optimal way to assist parents with children to remain employed, it could decide to take no action on providing such a credit (Alternative 4).

ALTERNATIVES

1. Create a nonrefundable state individual income tax credit for child and dependent care expenses beginning in tax year 2021. Set the credit equal to 50% of the amount of the federal child and dependent care expenses tax credit under the IRC that a claimant is eligible to claim on the claimant's federal income tax return for the same tax year. Sunset the current law deduction for child

and dependent care expenses beginning in tax year 2021. Estimate decreased individual income tax collections relative to current law of $31,300,000 in 2021-22 and $9,800,000 in 2022-23. [For additional detail, see discussion point #2.]

ALT 1	**Change to Base**
GPR-Tax	- $41,100,000

2. Adopt Alternative 1. However, create the credit as a refundable state individual income tax credit for child and dependent care expenses beginning in tax year 2021. Relative to current law, estimate the net cost of the credit at $37,400,000 in 2021-22 and $12,600,000 in 2022-23, comprised of: (a) increased GPR expenditures of $56,300,000 in 2021-22 and $31,500,000 in 2022-23; and (b) increased individual income tax collections of $18,900,000 in 2021-22 and 2022-23.

ALT 2	**Change to Base**
GPR	$87,800,000
GPR-Tax	37,800,000

3. Maintain the child and dependent care expenses deduction under current law. Create a nonrefundable state child tax credit and sunset the $700 personal exemption for dependents under the individual income tax, beginning in tax year 2021. Set the credit equal to $50 per qualifying dependent, for each dependent whom the claimant supports during the tax year and who may be claimed as a dependent on the claimant's state individual income tax return. Limit the credit to claims filed within four years of the unextended due date for which the tax return was due. Prohibit claims for a period of less than 12 months, except by reason of the taxpayer's death. Require couples who are married at the end of a tax year to claim the credit as married joint filers for that tax year, except permit married persons living apart and treated as single under the IRC to claim the credit as if a single or head-of-household claimant. Require claimants to comply with identification requirements under the IRC for receiving the federal child tax credit in order to receive the state credit. Authorize DOR to administer the credit under general statutory provisions related to the income tax. Decrease individual income tax collections relative to current law by an estimated $10,800,000 in 2021-22 and 2022-23.

ALT 3	**Change to Base**
GPR-Tax	- $21,600,000

4. Take no action.

Prepared by: Dan Spika
Attachments

ATTACHMENT 1

Distribution of Taxpayers under Proposal to Replace the Child and Dependent Care Deduction with a Nonrefundable Credit, Tax Year 2021 and 2022

Tax Year 2021

Wisconsin Adjusted Gross Income	Taxpayers Receiving a Tax Decrease: Count	% of Count	Amount of Decrease	% of Decrease	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under $5,000	--	--	--	--	--	452,530	--
5,000 to 10,000	--	--	--	--	--	222,780	--
10,000 to 15,000	240	0.2%	-$500	<0.1%	-$2	189,920	0.1%
15,000 to 20,000	1,450	1.3	-189,770	0.6	-131	173,570	0.8
20,000 to 25,000	2,290	2.1	-343,350	1.1	-150	175,870	1.3
25,000 to 30,000	3,620	3.3	-866,940	2.8	-239	180,040	2.0
30,000 to 40,000	8,080	7.3	-1,448,200	4.6	-179	337,360	2.4
40,000 to 50,000	5,760	5.2	-677,460	2.2	-118	265,160	2.2
50,000 to 60,000	7,550	6.9	-1,636,000	5.2	-217	198,250	3.8
60,000 to 70,000	6,440	5.9	-1,331,080	4.3	-207	157,280	4.1
70,000 to 80,000	6,170	5.6	-1,518,600	4.9	-246	125,480	4.9
80,000 to 90,000	6,730	6.1	-1,645,860	5.3	-245	106,980	6.3
90,000 to 100,000	7,990	7.3	-2,136,550	6.8	-267	92,800	8.6
100,000 to 125,000	17,360	15.8	-4,333,360	13.8	-250	176,430	9.8
125,000 to 150,000	13,020	11.8	-5,157,750	16.5	-396	109,060	11.9
150,000 to 200,000	12,140	11.0	-4,580,230	14.6	-377	106,220	11.4
200,000 to 250,000	5,370	4.9	-2,387,900	7.6	-445	44,680	12.0
250,000 to 300,000	1,820	1.7	-949,510	3.0	-522	22,590	8.1
300,000 to 500,000	2,470	2.2	-1,413,700	4.5	-572	33,320	7.4
500,000 to 1,000,000	1,230	1.1	-562,450	1.8	-457	16,180	7.6
1,000,000 and over	240	0.2	-130,000	0.4	-542	7,550	3.2
Total	109,970	100.0%	-$31,309,210	100.0%	-$285	3,194,050	3.4%

- An estimated 109,970 tax filers, or 3.4% of all filers in tax year 2021, would receive a tax decrease under Alternative 1.
- The total tax decrease is estimated at $31.3 million in tax year 2021, and the estimated average tax decrease for taxpayers with a tax reduction is $285.
- Filers with Wisconsin AGI of $100,000 or less are estimated to comprise 51.2% of all filers with a tax decrease, and are estimated to receive 37.7% of the total decrease. Their average decrease is estimated at $209. Filers with Wisconsin AGI of $100,000 or more are estimated to comprise 48.8% of all filers with a tax decrease, and to receive 62.3% of the total decrease. Their average tax decrease is estimated at $364.
-The estimated average tax decrease relative to current law is largest for filers with Wisconsin AGI of $125,000 or more ($418). This is likely because these taxpayers have comparatively higher child/dependent care expenses relative to their lower-income counterparts.
- Filers not receiving a tax decrease would include those without an eligible dependent, those who are not employed/looking for work, and nonresidents/part-year residents.

Based on a simulation of tax year 2021 by the Wisconsin Department of Revenue.

Tax Year 2022

Wisconsin Adjusted Gross Income	Taxpayers Receiving a Tax Decrease: Count	% of Count	Amount of Decrease	% of Decrease	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under $5,000	--	--	--	--	--	454,110	--
5,000 to 10,000	--	--	--	--	--	222,820	--
10,000 to 15,000	110	0.1%	-$4,190	<0.1%	-$38	189,960	0.1%
15,000 to 20,000	1,020	1.0	-91,300	0.9	-90	172,890	0.6
20,000 to 25,000	2,830	2.6	-380,970	3.9	-135	177,130	1.6
25,000 to 30,000	4,270	4.0	-691,210	7.1	-162	182,560	2.3
30,000 to 40,000	7,870	7.4	-923,790	9.5	-117	343,510	2.3
40,000 to 50,000	5,430	5.1	-391,650	4.0	-72	268,980	2.0
50,000 to 60,000	4,690	4.4	-317,760	3.3	-68	200,050	2.3
60,000 to 70,000	5,390	5.0	-375,640	3.9	-70	158,230	3.4
70,000 to 80,000	6,150	5.8	-445,450	4.6	-72	124,050	5.0
80,000 to 90,000	7,050	6.6	-535,100	5.5	-76	105,830	6.7
90,000 to 100,000	7,450	7.0	-590,130	6.1	-79	92,130	8.1
100,000 to 125,000	17,550	16.4	-1,520,310	15.6	-87	176,590	9.9
125,000 to 150,000	12,590	11.8	-1,241,830	12.7	-99	110,330	11.4
150,000 to 200,000	12,510	11.7	-1,210,910	12.4	-97	108,190	11.6
200,000 to 250,000	5,160	4.8	-480,370	4.9	-93	46,420	11.1
250,000 to 300,000	2,410	2.3	-231,060	2.4	-96	23,370	10.3
300,000 to 500,000	3,000	2.8	-230,600	2.4	-77	34,530	8.7
500,000 to 1,000,000	1,120	1.0	-72,940	0.7	-65	16,830	6.7
1,000,000 and over	240	0.2	-16,550	0.2	-69	7,820	3.1
Total	106,840	100.0%	-$9,751,760	100.0%	-$91	3,216,330	3.3%

- An estimated 106,840 tax filers, or 3.3% of all filers in tax year 2022, would receive a tax decrease under Alternative 1.
- The total tax decrease is estimated at $9.8 million in tax year 2022, and the estimated average tax decrease for taxpayers with a tax reduction is $91.
- Filers with Wisconsin AGI of $100,000 or less are estimated to comprise 48.9% of all filers with a tax decrease, and are estimated to receive 48.7% of the total decrease. Their average decrease is estimated at $91. Filers with Wisconsin AGI of $100,000 or more are estimated to comprise 51.1% of all filers with a tax decrease, and to receive 51.3% of the total decrease. Their average tax decrease is estimated at $92.
- The estimated average tax decrease relative to current law is largest for filers with Wisconsin AGI of $20,000 to $40,000 ($133). This is due in part to the fact that, because these filers are subject to a lower effective tax rate than their higher-income counterparts, the current law deduction is less valuable for them than for higher-income claimants.
- Filers not receiving a tax decrease would include those without an eligible dependent, those who are not employed/looking for work, and nonresidents/part-year residents.

Based on a simulation of tax year 2022 by the Wisconsin Department of Revenue.

ATTACHMENT 2

Distribution of Taxpayers under Proposal to Replace the Child and Dependent Care Deduction with a Refundable Credit, Tax Year 2021 and 2022

Tax Year 2021

Wisconsin Adjusted Gross Income	Taxpayers Receiving a Tax Decrease: Count	% of Count	Amount of Decrease	% of Decrease	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under $5,000	490	0.4%	-$273,010	0.7%	-$557	452,530	0.1%
5,000 to 10,000	1,090	0.9	-853,400	2.3	-783	222,780	0.5
10,000 to 15,000	1,450	1.2	-736,120	2.0	-508	189,920	0.8
15,000 to 20,000	2,170	1.9	-980,390	2.6	-452	173,570	1.3
20,000 to 25,000	3,980	3.4	-1,778,200	4.8	-447	175,870	2.3
25,000 to 30,000	3,870	3.3	-1,718,510	4.6	-444	180,040	2.1
30,000 to 40,000	9,030	7.7	-2,032,960	5.4	-225	337,360	2.7
40,000 to 50,000	5,780	4.9	-915,320	2.4	-158	265,160	2.2
50,000 to 60,000	7,570	6.5	-1,744,860	4.7	-230	198,250	3.8
60,000 to 70,000	6,460	5.5	-1,337,100	3.6	-207	157,280	4.1
70,000 to 80,000	6,400	5.5	-1,561,330	4.2	-244	125,480	5.1
80,000 to 90,000	6,730	5.7	-1,645,860	4.4	-245	106,980	6.3
90,000 to 100,000	8,110	6.9	-2,166,210	5.8	-267	92,800	8.7
100,000 to 125,000	17,360	14.8	-4,336,860	11.6	-250	176,430	9.8
125,000 to 150,000	13,020	11.1	-5,161,260	13.8	-396	109,060	11.9
150,000 to 200,000	12,380	10.6	-4,707,050	12.6	-380	106,220	11.7
200,000 to 250,000	5,370	4.6	-2,387,900	6.4	-445	44,680	12.0
250,000 to 300,000	1,830	1.6	-954,770	2.6	-522	22,590	8.1
300,000 to 500,000	2,480	2.1	-1,420,760	3.8	-573	33,320	7.4
500,000 to 1,000,000	1,240	1.1	-565,100	1.5	-456	16,180	7.7
1,000,000 and over	240	0.2	-130,000	0.3	-542	7,550	3.2
Total	117,050	100.0%	-$37,406,970	100.0%	-$320	3,194,050	3.7%

- An estimated 117,050 tax filers, (3.7% of all filers in tax year 2021), would receive a tax decrease under Alternative 2.
- The total tax decrease is estimated at $37.4 million in tax year 2021, and the estimated average tax decrease for taxpayers with a tax reduction is $320.
- Filers with Wisconsin AGI of $100,000 or less are estimated to comprise 53.9% of all filers with a tax decrease, and are estimated to receive 47.4% of the total decrease. Their average decrease is estimated at $281. Filers with Wisconsin AGI of $100,000 or more are estimated to comprise 46.1% of all filers with a tax decrease, and to receive 52.6% of the total decrease. Their average tax decrease is estimated at $365.
-The estimated average tax decrease relative to current law is largest for filers with Wisconsin AGI of $15,000 or less ($615). Because the credit under Alternative 2 is refundable, these filers (many of whom do not have a net tax liability) benefit more from use of the credit compared to the nonrefundable credit under Alternative 1.
- Filers not receiving a tax decrease would include those without an eligible dependent, those who are not employed/looking for work, and nonresidents/part-year residents.

Based on a simulation of tax year 2021 by the Wisconsin Department of Revenue.

Tax Year 2022

Wisconsin Adjusted Gross Income	Taxpayers Receiving a Tax Decrease: Count	% of Count	Amount of Decrease	% of Decrease	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under $5,000	800	0.7%	-$252,750	2.0%	-$316	454,110	0.2%
5,000 to 10,000	1,080	0.9	-354,550	2.8	-328	222,820	0.5
10,000 to 15,000	1,660	1.5	-521,460	4.1	-314	189,960	0.9
15,000 to 20,000	2,500	2.2	-707,060	5.6	-283	172,890	1.4
20,000 to 25,000	3,740	3.3	-907,960	7.2	-243	177,130	2.1
25,000 to 30,000	4,560	4.0	-883,160	7.0	-194	182,560	2.5
30,000 to 40,000	8,350	7.3	-1,077,840	8.5	-129	343,510	2.4
40,000 to 50,000	5,550	4.8	-427,890	3.4	-77	268,980	2.1
50,000 to 60,000	4,750	4.1	-332,090	2.6	-70	200,050	2.4
60,000 to 70,000	5,460	4.8	-394,130	3.1	-72	158,230	3.5
70,000 to 80,000	6,210	5.4	-463,790	3.7	-75	124,050	5.0
80,000 to 90,000	7,120	6.2	-550,780	4.4	-77	105,830	6.7
90,000 to 100,000	7,490	6.5	-601,990	4.8	-80	92,130	8.1
100,000 to 125,000	17,690	15.5	-1,559,990	12.3	-88	176,590	10.0
125,000 to 150,000	12,690	11.1	-1,270,290	10.0	-100	110,330	11.5
150,000 to 200,000	12,670	11.1	-1,256,740	9.9	-99	108,190	11.7
200,000 to 250,000	5,260	4.6	-505,900	4.0	-96	46,420	11.3
250,000 to 300,000	2,450	2.1	-241,290	1.9	-98	23,370	10.5
300,000 to 500,000	3,050	2.7	-241,420	1.9	-79	34,530	8.8
500,000 to 1,000,000	1,130	1.0	-75,290	0.6	-67	16,830	6.7
1,000,000 and over	250	0.2	-17,390	0.1	-70	7,820	3.2
Total	114,460	100.0%	-$12,643,760	100.0%	-$110	3,216,330	3.6%

- An estimated 114,460 tax filers, or 3.6% of all filers in tax year 2022, would receive a tax decrease under Alternative 2.
- The total tax decrease is estimated at $12.6 million in tax year 2022, and the estimated average tax decrease for taxpayers with a tax reduction is $110.
- Filers with Wisconsin AGI of $100,000 or less are estimated to comprise 51.8% of all filers with a tax decrease, and are estimated to receive 59.1% of the total decrease. Their average decrease is estimated at $126. Filers with Wisconsin AGI of $100,000 or more are estimated to comprise 48.2% of all filers with a tax decrease, and to receive 40.9% of the total decrease. Their average tax decrease is estimated at $94.
-As in tax year 2021, the estimated average tax decrease relative to current law is largest under Alternative 2 for filers with Wisconsin AGI of $15,000 or less ($319).
- Filers not receiving a tax decrease would include those without an eligible dependent, those who are not employed/looking for work, and nonresidents/part-year residents.

Based on a simulation of tax year 2022 by the Wisconsin Department of Revenue.

ATTACHMENT 3

Distribution of Taxpayers with a Tax Decrease under Proposal to Replace the Personal Exemption for Dependents with a Nonrefundable $50 State Child Tax Credit, Tax Year 2021

Wisconsin Adjusted Gross Income	Taxpayers Receiving a Tax Decrease: Count	Percent of Count	Amount of Tax Decrease	Percent of Decrease	Average Decrease	Count of All Returns	% of All Returns in AGI Class
Under $5,000	2,320	0.3%	-$5,070	<0.1%	-$2	452,530	0.5%
5,000 to 10,000	2,930	0.4	-14,220	0.1	-5	222,780	1.3
10,000 to 15,000	4,290	0.6	-56,820	0.5	-13	189,920	2.3
15,000 to 20,000	13,890	2.0	-392,250	3.6	-28	173,570	8.0
20,000 to 25,000	27,660	4.0	-922,390	8.4	-33	175,870	15.7
25,000 to 30,000	36,240	5.2	-1,057,900	9.6	-29	180,040	20.1
30,000 to 40,000	75,980	10.9	-1,886,140	17.1	-25	337,360	22.5
40,000 to 50,000	65,020	9.4	-1,288,210	11.7	-20	265,160	24.5
50,000 to 60,000	54,290	7.8	-614,500	5.6	-11	198,250	27.4
60,000 to 70,000	49,210	7.1	-547,950	5.0	-11	157,280	31.3
70,000 to 80,000	44,230	6.4	-499,280	4.5	-11	125,480	35.2
80,000 to 90,000	41,830	6.0	-476,980	4.3	-11	106,980	39.1
90,000 to 100,000	39,010	5.6	-445,530	4.0	-11	92,800	42.0
100,000 to 125,000	82,480	11.9	-952,140	8.7	-12	176,430	46.7
125,000 to 150,000	56,290	8.1	-658,860	6.0	-12	109,060	51.6
150,000 to 200,000	56,550	8.1	-670,600	6.1	-12	106,220	53.2
200,000 to 250,000	23,560	3.4	-283,910	2.6	-12	44,680	52.7
250,000 to 300,000	11,460	1.7	-141,420	1.3	-12	22,590	50.7
300,000 to 500,000	7,210	1.0	-90,330	0.8	-13	33,320	21.6
500,000 to 1,000,000*	--	--	--	--	--	16,180	--
1,000,000 and over*	--	--	--	--	--	7,550	--
Total	694,450	100.0%	-$11,004,500	100.0%	-$16	3,194,050	21.7%

*Data are suppressed to preserve taxpayer confidentiality.

- An estimated 694,450 tax filers, or 21.7% of all filers in tax year 2021, would receive a tax decrease under Alternative 4.
- The total tax decrease is estimated at $11.0 million in tax year 2021, and the estimated average tax decrease for taxpayers with a tax reduction is $16.
- Filers with Wisconsin AGI of $100,000 or less are estimated to comprise 65.8% of all filers with a tax decrease, and are estimated to receive 74.6% of the total decrease. Their average decrease is estimated at $18. Filers with Wisconsin AGI of $100,000 or more are estimated to comprise 34.2% of all filers with a tax decrease, and to receive 25.4% of the total decrease. Their average tax decrease is estimated at $12.
- Filers with Wisconsin AGI between $15,000 and $40,000 are estimated to receive the largest average tax decrease among all filers with a decrease ($28).
- Filers not receiving a tax decrease would include those without an eligible dependent, nonresidents and part-year residents, and those with no net tax liability.

Based on a simulation of tax year 2021 by the Wisconsin Department of Revenue.