



Legislative Fiscal Bureau

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TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Distributional Information on Proposed Individual Income Tax Modifications in the Governor's 2023-25 Biennial Budget Bill

This memorandum provides distributional information related to the Governor's proposed changes to the individual income tax in AB 43/SB 70, the 2023-25 biennial budget bills.

The attachment provides a distributional analysis for several of the proposed modifications in AB 43/SB 70 for tax year 2023. The attachment includes the estimated effects of: (a) limiting the exclusion for nonfarm capital gains; (b) limiting the amount of qualified production activities income from manufacturing activities that a claimant may use in calculating the manufacturing and agriculture credit (MAC); (c) limiting the deduction under current law for elementary and secondary private school tuition expenses based on a taxpayer's federal adjusted gross income (AGI); (d) sunsetting the working families credit; (e) expanding the exclusion for retirement income for certain lower-income taxpayers aged 65 or older; (f) expanding the exclusion for disability income; (g) expanding the nonrefundable child and dependent care expenses credit; (h) creating a nonrefundable credit for up to 10% of net tax liability called the family and individual reinvestment credit; (i) creating a nonrefundable credit for caregiving expenses; (j) increasing the credit rates under the state earned income tax credit (EITC) for claimants with one and two children; (k) expanding the homestead credit; (l) providing the veterans and surviving spouses property tax credit to eligible renters and to those with a service-connected disability rating of at least 70%; and (m) increasing the refundable portion of the research credit to up to 50%. Table 1 displays the estimated fiscal effect of each of these provisions for tax year 2023.

For tax year 2023, the attachment combines the fiscal effects of nine provisions decreasing taxes and four provisions increasing taxes. The attachment also includes interactive effects, which occur when some taxpayers are impacted both by provisions decreasing taxes and provisions increasing taxes.

TABLE 1

**Individual Income Tax -- Fiscal Effects of Provisions Included in the Attachment,
Tax Year 2023 (Millions)**

<u>Provisions Decreasing Taxes</u>	
Expand Retirement Income Exclusion	-\$4.5
Expand Disability Income Exclusion	-0.3
Expand Child and Dependent Care Credit	-27.3
Family and Individual Reinvestment Credit	-418.7
Family Caregiver Credit	-96.7
Increase Credit Rates for 1- and 2-Child EITC Claimants	-60.7
Expand Homestead Credit Factors	-43.2
Provide Veterans Credit to Renters and 70% Disabled	-25.5
Increase Refundable Portion of Research Credit to 50%	-6.5
Interactive Effects	<u>18.1</u>
Subtotal	-\$665.1
<u>Provisions Increasing Taxes</u>	
Limit Exclusion for Nonfarm Capital Gains	\$146.5
Manufacturing Income Limit for MAC Claimants	209.0
Limit Private School Tuition Deduction	6.4
Sunset Working Families Credit	0.1
Interactive Effects	<u>-3.8</u>
Subtotal	\$358.2

The combined effects of these provisions would cause some taxpayers to experience tax decreases and other taxpayers to experience tax increases. The attachment displays the effect for each type of taxpayer, as well as the combined effect. As shown in the attachment, taxpayers receiving a tax decrease (2,185,833) would exceed the number of taxpayers experiencing a tax increase (37,671) in tax year 2023. It should be noted that two provisions decreasing taxes related to the veterans property tax credit and the disability exclusion were simulated separately from the other tax provisions. To the extent these provisions would increase the number of individuals experiencing a tax decrease, or result in an individual experiencing a tax decrease instead of a tax increase, the counts and average tax changes for individuals experiencing a tax change may differ slightly from the amounts shown in the attachment. The total estimated tax increase would be \$358.2 million, for an average increase of \$9,509 in tax year 2023. The total estimated tax decrease would be \$665.1 million, for an average decrease of \$304 in tax year 2023.

The distributional analysis does not include the individual income tax effects of the following proposed modifications that are estimated to have a fiscal effect in 2023-24: (a) updating references to the Internal Revenue Code (IRC); (b) repealing the carryback allowance for a net operating loss (NOL); and (c) creating a nonrefundable credit for flood insurance premiums. Table 2 displays the estimated fiscal effect of each of these provisions for 2023-24.

TABLE 2

**Individual Income Tax -- Fiscal Effects of Provisions Not Included in the Attachment,
State Fiscal Year 2023-24 (Millions)**

<u>Provisions with a Tax Change</u>	
IRC Updates	\$46.9
Repeal NOL Carryback	2.9
Flood Insurance Premiums Credit	<u>-0.4</u>
Subtotal	\$49.4

DS/ml
Attachment

ATTACHMENT

Estimated Distribution of Taxpayers with a Tax Change Under Selected Individual Income Tax Provisions in AB 43/SB 70, Tax Year 2023

Adjusted Gross Income	Taxpayers with a Tax Decrease					Count of All Returns	% of All Returns in AGI Class	Taxpayers with a Tax Increase					Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Decrease	Percent of Decrease	Average Decrease			Count	Percent of Count	Amount of Tax Increase	Percent of Increase	Average Increase		
Under \$5,000	100,532	4.6%	-\$24,996,458	3.8%	-\$249	474,483	21.2%	904	2.4%	\$1,102,787	0.3%	\$1,220	474,483	0.2%
5,000 to 10,000	41,919	1.9	-10,428,500	1.6	-249	210,708	19.9	301	0.8	61,216	<0.1	203	210,708	0.1
10,000 to 15,000	70,769	3.2	-15,314,025	2.3	-216	172,210	41.1	257	0.7	69,393	<0.1	270	172,210	0.1
15,000 to 20,000	94,171	4.3	-22,145,320	3.3	-235	150,938	62.4	203	0.5	58,371	<0.1	288	150,938	0.1
20,000 to 25,000	114,629	5.2	-29,672,752	4.5	-259	151,481	75.7	165	0.4	49,325	<0.1	299	151,481	0.1
25,000 to 30,000	126,632	5.8	-35,292,175	5.3	-279	156,114	81.1	166	0.4	66,229	<0.1	399	156,114	0.1
30,000 to 40,000	276,149	12.6	-58,297,041	8.8	-211	306,635	90.1	387	1.0	168,349	<0.1	435	306,635	0.1
40,000 to 50,000	261,271	12.0	-54,688,051	8.2	-209	275,370	94.9	435	1.2	434,191	0.1	998	275,370	0.2
50,000 to 60,000	212,881	9.7	-50,170,352	7.5	-236	223,423	95.3	484	1.3	583,884	0.2	1,206	223,423	0.2
60,000 to 70,000	165,973	7.6	-46,451,674	7.0	-280	174,083	95.3	447	1.2	456,279	0.1	1,021	174,083	0.3
70,000 to 80,000	133,095	6.1	-43,091,717	6.5	-324	139,254	95.6	417	1.1	631,908	0.2	1,515	139,254	0.3
80,000 to 90,000	108,836	5.0	-38,757,920	5.8	-356	113,711	95.7	370	1.0	512,971	0.1	1,386	113,711	0.3
90,000 to 100,000	92,351	4.2	-38,022,112	5.7	-412	96,920	95.3	342	0.9	529,364	0.1	1,548	96,920	0.4
100,000 to 125,000	180,357	8.3	-84,625,628	12.7	-469	193,369	93.3	851	2.3	1,490,449	0.4	1,751	193,369	0.4
125,000 to 150,000	112,037	5.1	-72,553,072	10.9	-648	134,247	83.5	946	2.5	1,368,719	0.4	1,447	134,247	0.7
150,000 to 200,000	79,677	3.6	-32,902,789	4.9	-413	142,796	55.8	4,342	11.5	3,425,462	1.0	789	142,796	3.0
200,000 to 250,000	6,865	0.3	-2,304,328	0.3	-336	60,545	11.3	3,269	8.7	3,119,154	0.9	954	60,545	5.4
250,000 to 300,000	2,991	0.1	-1,307,676	0.2	-437	29,755	10.1	2,094	5.6	2,483,646	0.7	1,186	29,755	7.0
300,000 to 500,000	3,559	0.2	-1,643,317	0.2	-462	43,359	8.2	5,993	15.9	13,263,407	3.7	2,213	43,359	13.8
500,000 to 1,000,000	965	<0.1	-968,677	0.1	-1,004	17,952	5.4	9,852	26.2	33,863,787	9.5	3,437	17,952	54.9
1,000,000 and over	174	<0.1	-1,512,048	0.2	-8,690	7,458	2.3	5,446	14.5	294,465,170	82.2	54,070	7,458	73.0
Total	2,185,833	100.0%	-\$665,145,633	100.0%	-\$304	3,274,811	66.7%	37,671	100.0%	\$358,204,061	100.0%	\$9,509	3,274,811	1.2%

Adjusted Gross Income	Taxpayers with a Tax Change					Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Change	Percent of Change	Average Change		
Under \$5,000	101,436	4.6%	-\$23,893,671	7.8%	-\$236	474,483	21.4%
5,000 to 10,000	42,220	1.9	-10,367,284	3.4	-246	210,708	20.0
10,000 to 15,000	71,026	3.2	-15,244,632	5.0	-215	172,210	41.2
15,000 to 20,000	94,374	4.2	-22,086,949	7.2	-234	150,938	62.5
20,000 to 25,000	114,794	5.2	-29,623,427	9.7	-258	151,481	75.8
25,000 to 30,000	126,798	5.7	-35,225,946	11.5	-278	156,114	81.2
30,000 to 40,000	276,536	12.4	-58,128,692	18.9	-210	306,635	90.2
40,000 to 50,000	261,706	11.8	-54,253,860	17.7	-207	275,370	95.0
50,000 to 60,000	213,365	9.6	-49,586,468	16.2	-232	223,423	95.5
60,000 to 70,000	166,420	7.5	-45,995,395	15.0	-276	174,083	95.6
70,000 to 80,000	133,512	6.0	-42,459,809	13.8	-318	139,254	95.9
80,000 to 90,000	109,206	4.9	-38,244,949	12.5	-350	113,711	96.0
90,000 to 100,000	92,693	4.2	-37,492,748	12.2	-404	96,920	95.6
100,000 to 125,000	181,208	8.1	-83,135,179	27.1	-459	193,369	93.7
125,000 to 150,000	112,983	5.1	-71,184,353	23.2	-630	134,247	84.2
150,000 to 200,000	84,019	3.8	-29,477,327	9.6	-351	142,796	58.8
200,000 to 250,000	10,134	0.5	814,826	-0.3	80	60,545	16.7
250,000 to 300,000	5,085	0.2	1,175,970	-0.4	231	29,755	17.1
300,000 to 500,000	9,552	0.4	11,620,090	-3.8	1,217	43,359	22.0
500,000 to 1,000,000	10,817	0.5	32,895,110	-10.7	3,041	17,952	60.3
1,000,000 and over	5,620	0.3	292,953,122	-95.4	52,127	7,458	75.4
Total	2,223,504	100.0%	-\$306,941,572	100.0%	-\$138	3,274,811	67.9%

--In tax year 2023, it is estimated that 2,223,504 filers (67.9% of all filers) would experience a tax change under AB 43/SB 70. Of these, an estimated 2,185,833 (66.7% of all filers) would experience a tax decrease, and 37,671 (1.2% of all filers) would experience a tax increase.

--The total tax change under the bill is estimated at -\$306.9 million in tax year 2023, with tax decreases of \$665.1 million offset by tax increases of \$358.2 million. Among taxpayers with a tax decrease, the average decrease is estimated at \$304. For taxpayers with a tax increase, the average increase is estimated at \$9,509. Overall, the average tax change for affected filers is estimated to be a decrease of \$138.

--Among taxpayers with a tax increase in tax year 2023, those with Wisconsin AGI of \$300,000 or more would represent 56.5% of all filers with a tax increase and would incur 95.4% of the total increase. Their estimated average increase would be \$16,044.

--Among taxpayers with a tax decrease in tax year 2023, filers with Wisconsin AGI between \$100,000 and \$150,000 would represent 13.4% of all filers with a tax decrease and would receive 23.6% of the total decrease. Their estimated average decrease would be \$538.

--Among taxpayers with a tax change in tax year 2023, tax decreases are estimated to exceed tax increases for filers with Wisconsin AGI under \$200,000. The net tax decrease for such filers is estimated at \$646.4 million, for an average decrease of \$296. Tax increases are estimated to exceed tax decreases for filers with Wisconsin AGI of \$200,000 or more. The net tax increase for such filers is estimated at \$339.5 million, for an average increase of \$8,238.

Compiled based on simulations of tax year 2023 by the Department of Revenue.