

# WISCONSIN

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## TAX OPTIONS

A GUIDE TO FAIR, SIMPLE, PRO-GROWTH REFORM

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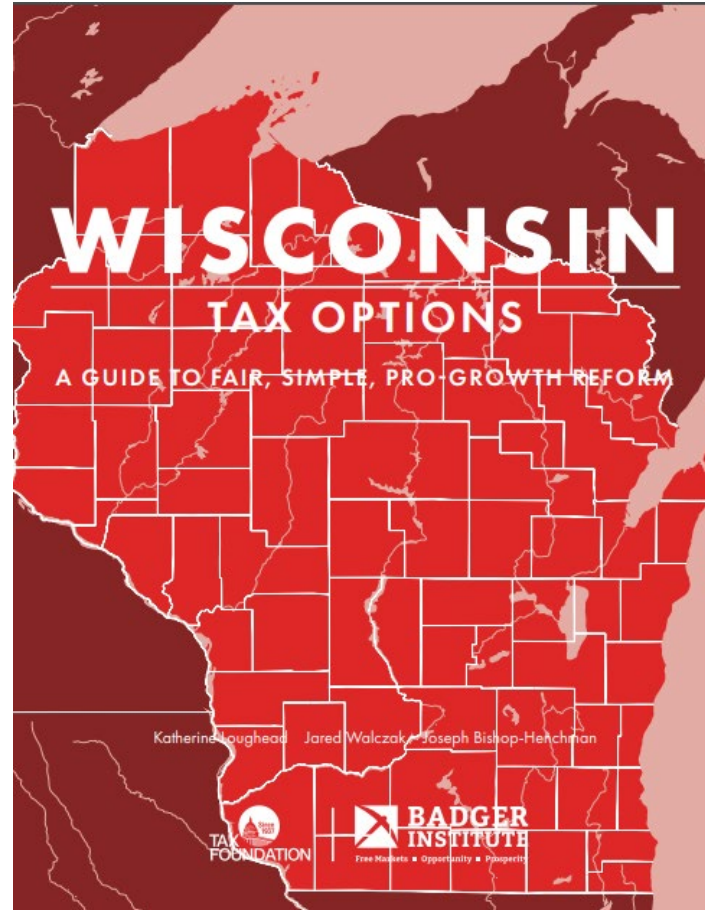
**Mike Nichols**, President, Badger Institute

**Katherine Loughead**, Policy Analyst, Tax Foundation

**Joe Bishop-Henchman**, Executive Vice President, Tax Foundation

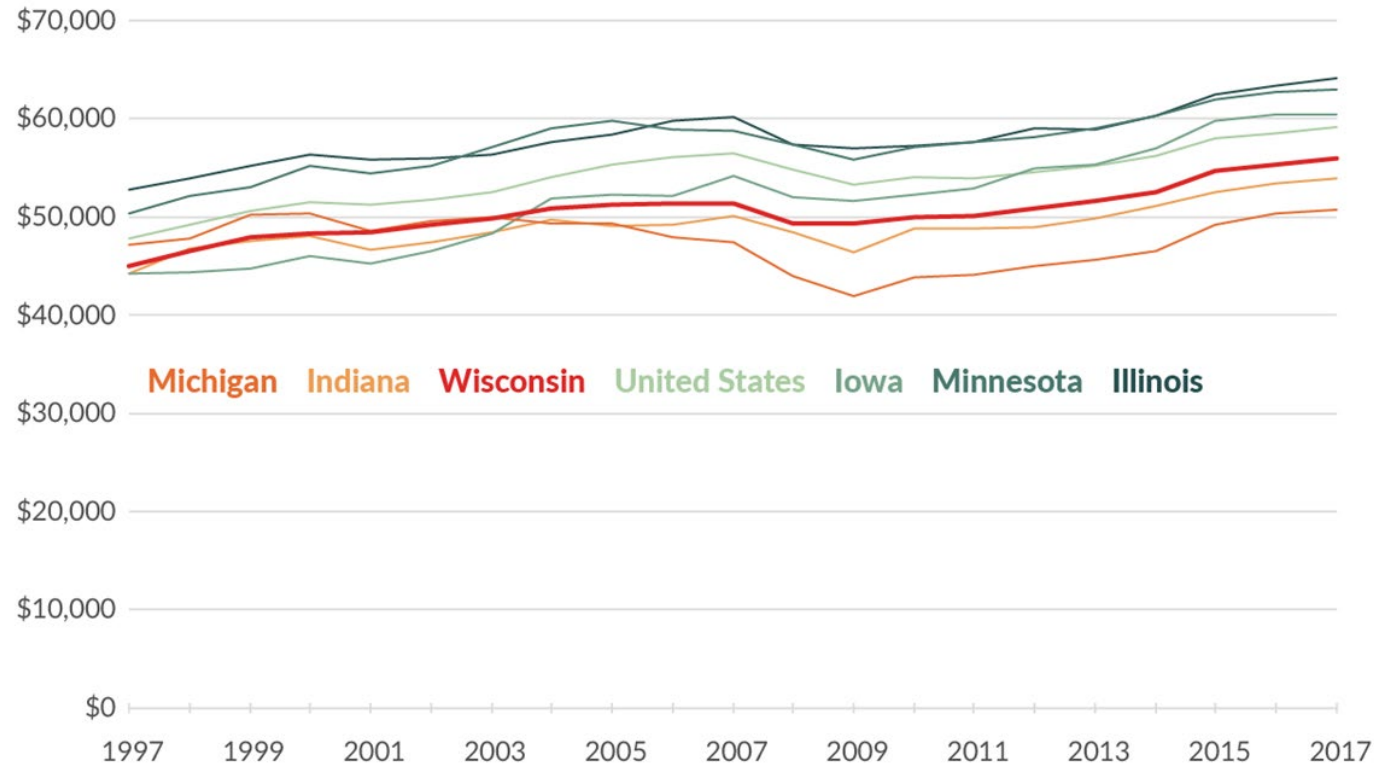


# Why Tax Reform?



# Wisconsin's Economy

**State Gross Domestic Product Per Capita, 1997-2017,  
Wisconsin, Neighboring States (in 2017 dollars)**

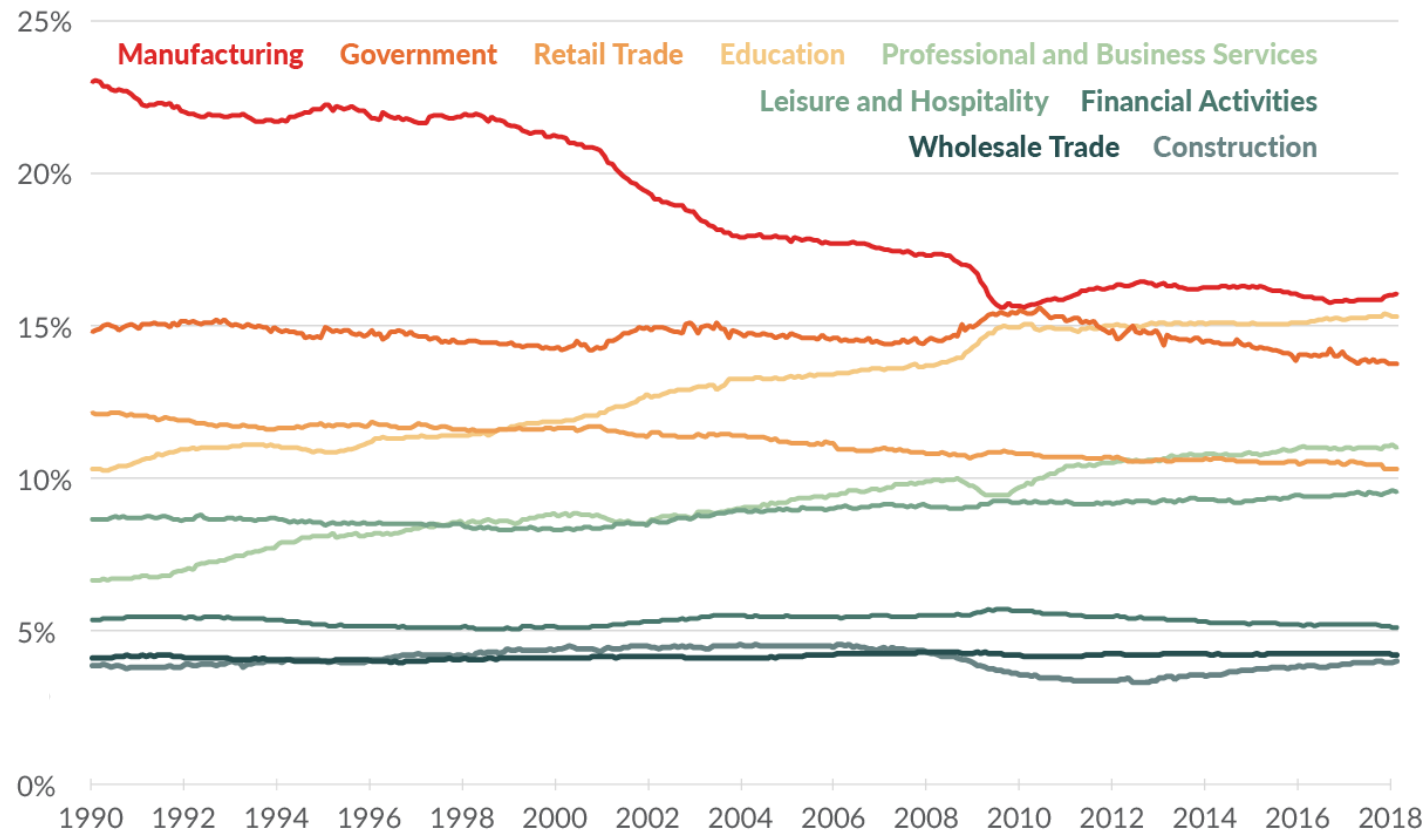


Note: Dollar amounts were adjusted for inflation and expressed in 2017 dollars prior to calculating percentage changes using the Consumer Price Index for All Urban Consumers (CPI-U) from the Bureau of Labor Statistics.

Source: Bureau of Economic Analysis, Regional Economic Accounts, *Gross Domestic Product (GDP) by State*; Bureau of Labor Statistics, *Consumer Price Indexes (All Urban Consumers)*.

# Wisconsin's Economy

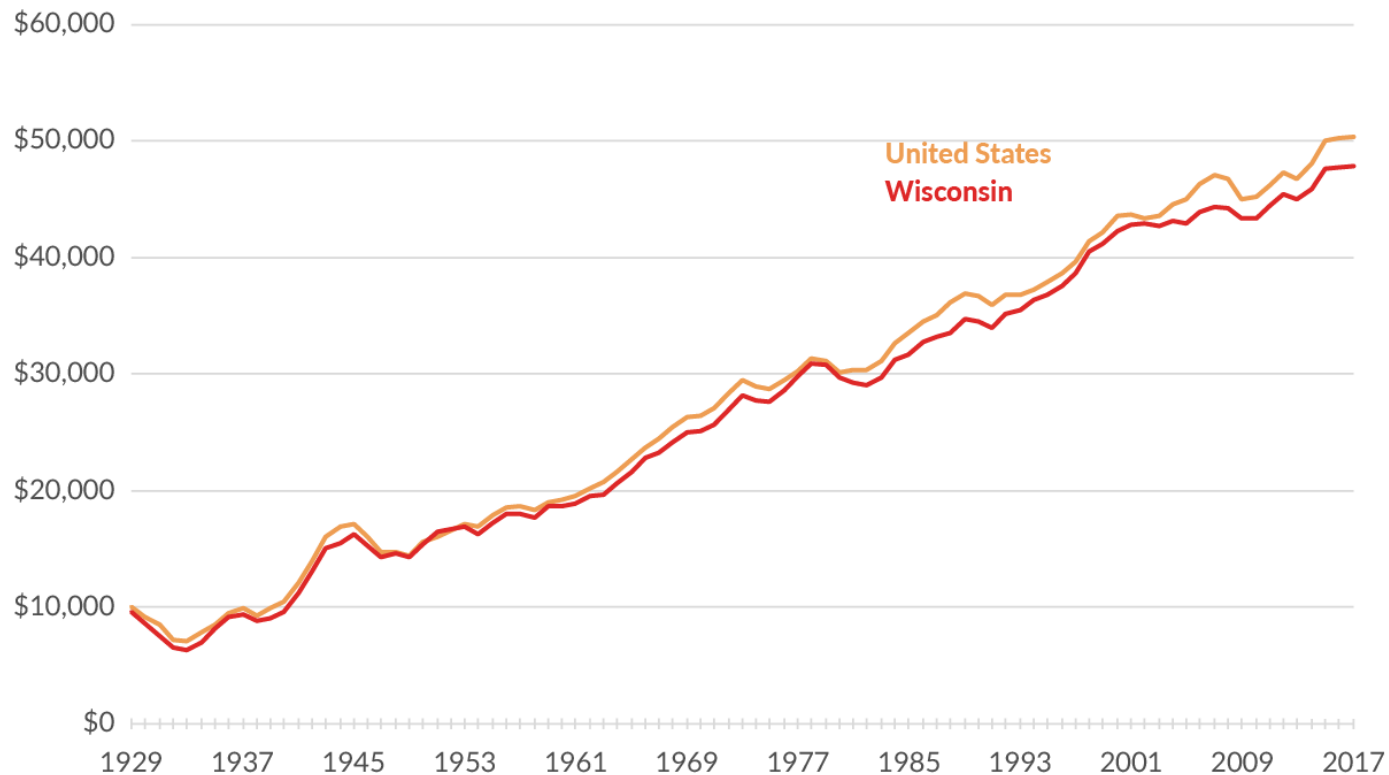
## Nonfarm Employment by Industry, 1990-2018



Source: Bureau of Labor Statistics, *State and Area Employment, Hours, and Earnings*.

# Wisconsin's Economy

**Personal Income Per Capita of Wisconsin and the U.S., 1929-2017  
(in 2017 dollars)**

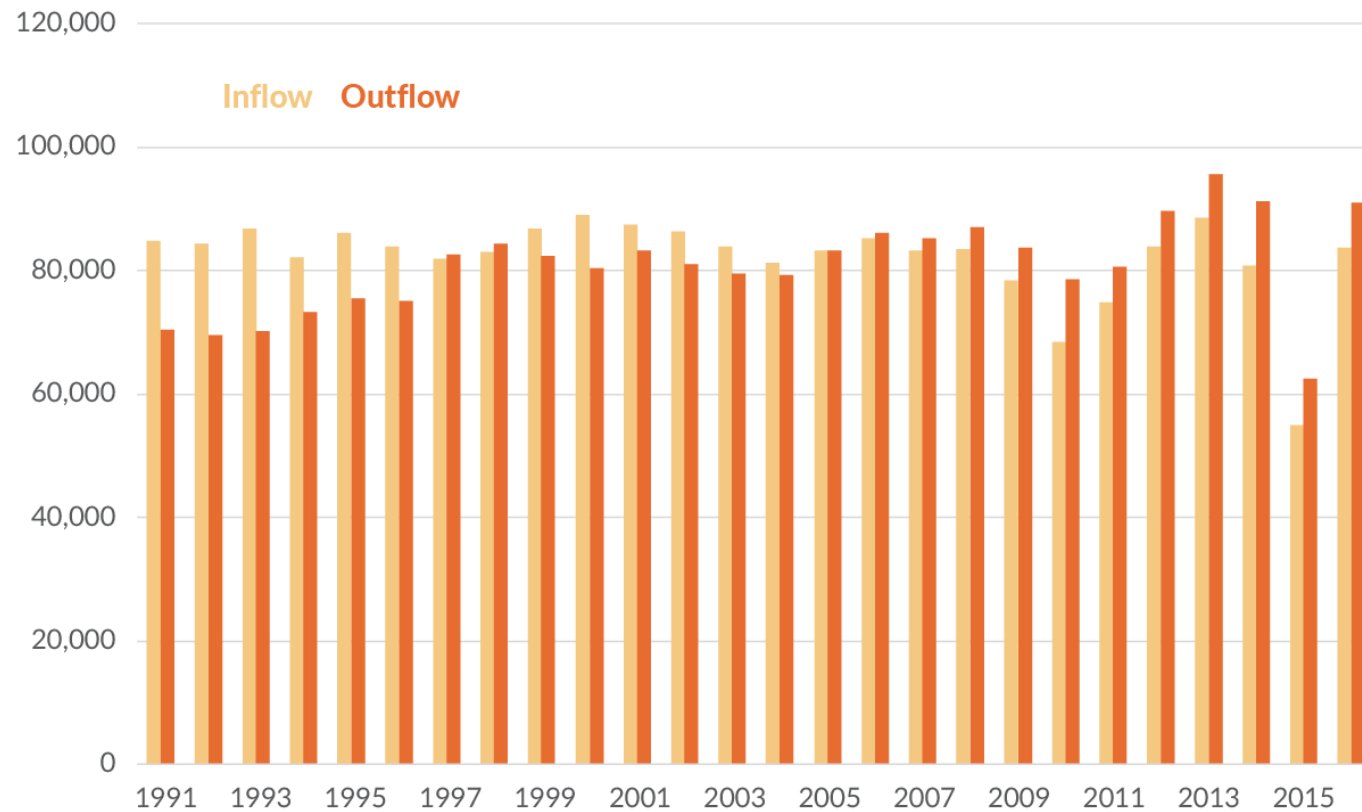


Note: Dollar amounts were adjusted for inflation and expressed in 2017 dollars prior to calculating percentage changes using the Consumer Price Index for All Urban Consumers (CPI-U) from the Bureau of Labor Statistics.

Source: Bureau of Economic Analysis, Regional Economic Accounts, *Personal Income Summary: Personal Income, Population, Per Capita Personal Income (Table SA1)*; Bureau of Labor Statistics, *Consumer Price Indexes (All Urban Consumers)*.

# Wisconsin's Economy

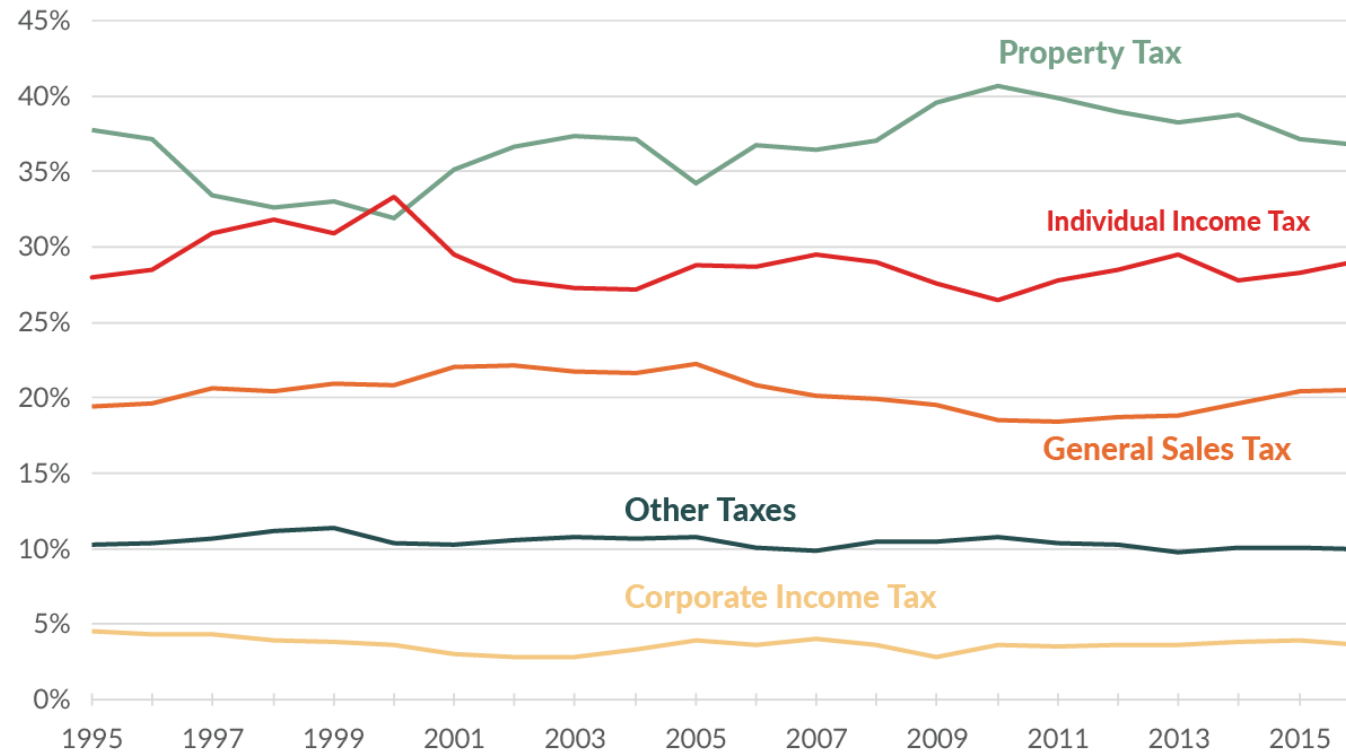
## Migration In and Out of Wisconsin, 1991-2016



Source: Internal Revenue Department: *Statistics of Income Tax Stats* – Migration Data, “U.S. Population Migration Data.”

# Wisconsin's Tax Structure

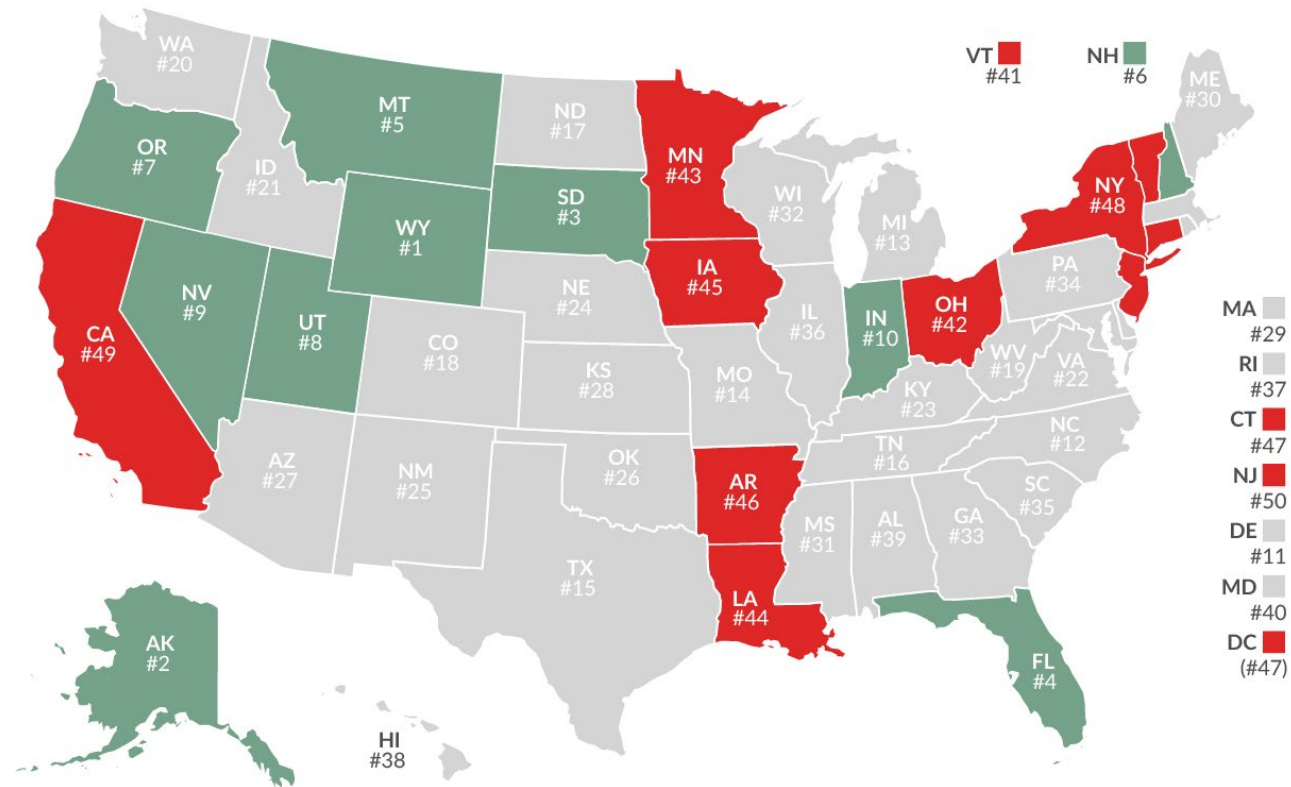
Sources of Wisconsin State & Local Tax Collections as Percent of Total, 1995-2016



Source: Wisconsin Department of Revenue, Wisconsin State & Local Taxes FY86-FY16.

# Wisconsin's Tax Structure

## 2019 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2018 (the beginning of Fiscal Year 2019).  
Source: Tax Foundation.

- 10 Best Business Tax Climates
- 10 Worst Business Tax Climates



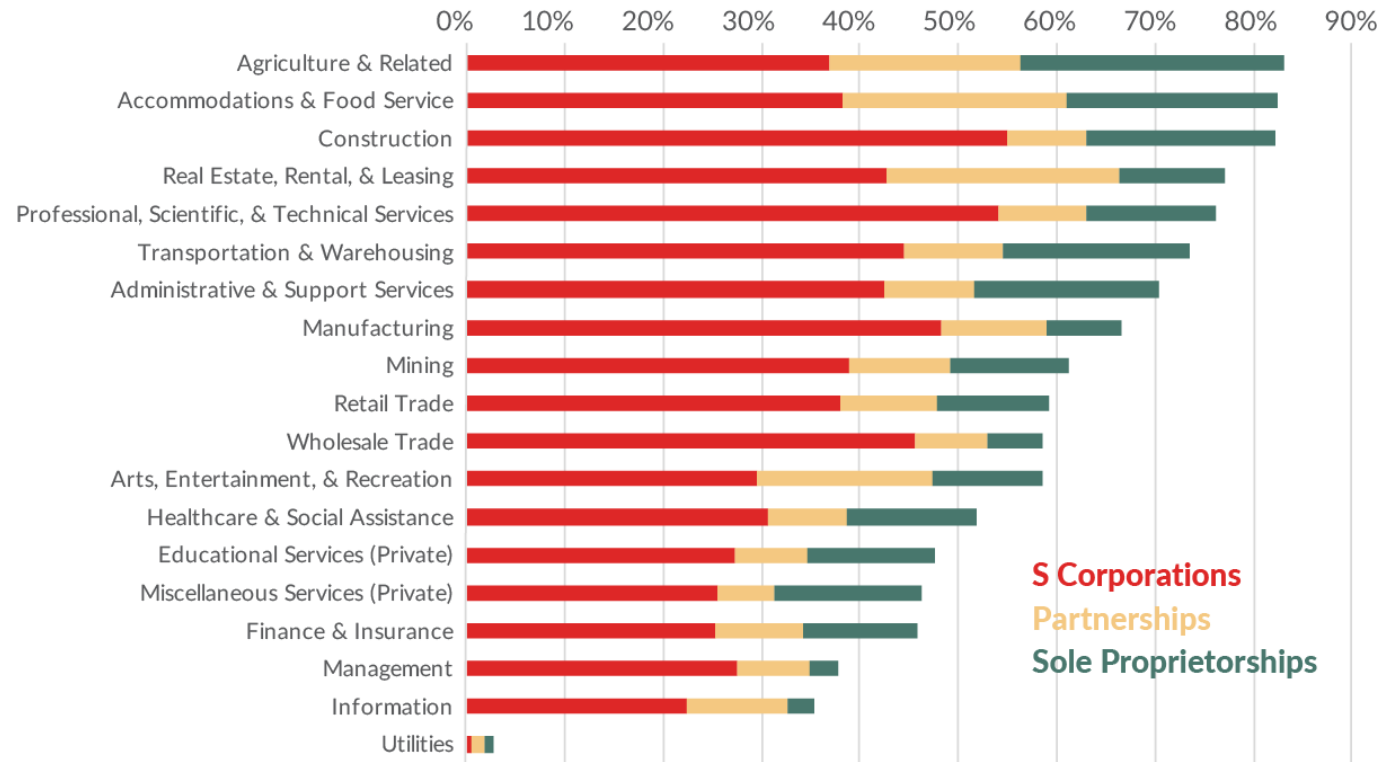
# Wisconsin's Tax Structure

## Wisconsin Component Rankings in the 2019 State Business Tax Climate Index

Component	Rank
Overall Rank	32
Corporate Taxes	35
Individual Taxes	39
Sales Taxes	8
Property Taxes	21
Unemployment Insurance Taxes	41

# Individual Income Taxes

## Share of Employer Firms Paying the Individual Income Tax, By Sector, 2016



Source: Census Bureau, 2016 County Business Patterns.

# Individual Income Taxes

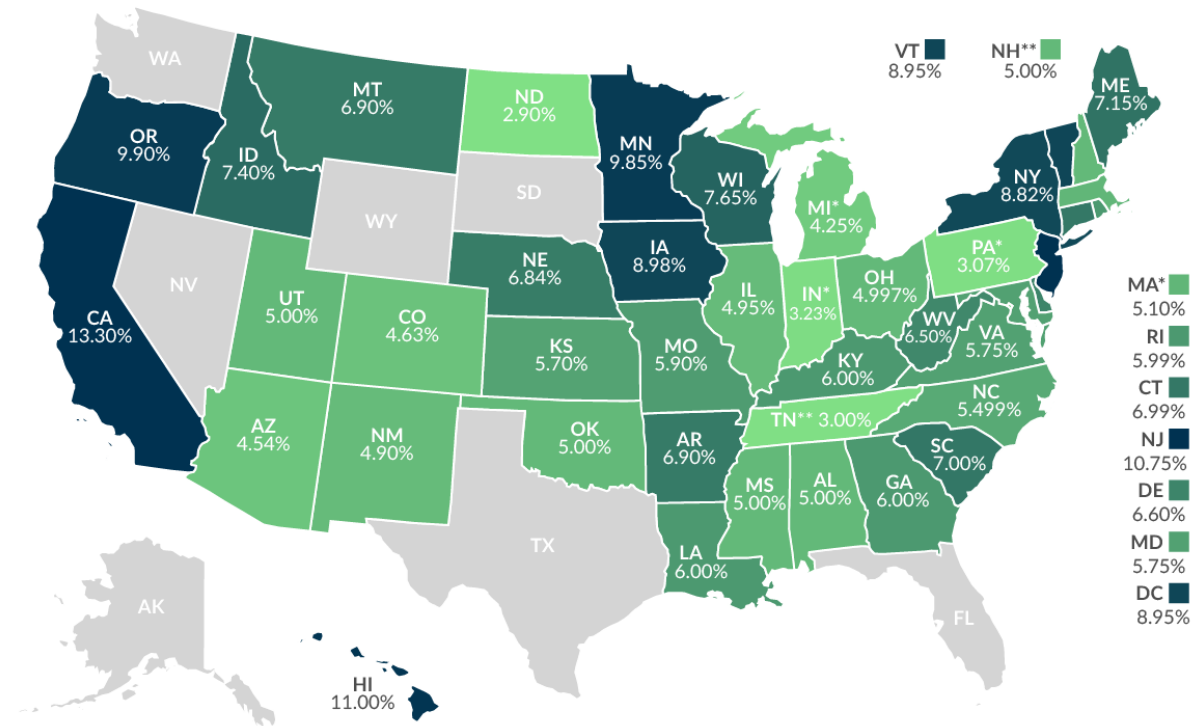
## Individual Income Tax Rates (Tax Year 2018)

Single Filers		Married Filing Jointly	
Taxable Income	Rate	Taxable Income	Rate
\$0+	4.00%	\$0+	4.00%
\$11,450+	5.84%	\$15,270+	5.84%
\$22,900+	6.27%	\$30,540+	6.27%
\$252,150+	7.65%	\$336,200+	7.65%

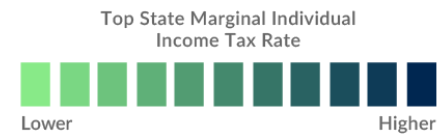
Source: Wisconsin Department of Revenue.

# Individual Income Taxes

## Top State Marginal Individual Income Tax Rates, 2018



Note: (\*) State has a flat income tax. (\*\*) State only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included. Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.



# Individual Income Taxes

2018 Standard Deduction Table

55 56

2018 Standard Deduction Table

(continued from page 55)

Dependents or persons filing short-period returns or excluding income from U.S. Possessions, see page 30.

If your income (line 14 of Form 1) is –		And you are –				If your income (line 14 of Form 1) is –		And you are –			
At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household
		Your standard deduction is –						Your standard deduction is –			
0	10,450	10,580	19,580	9,300	13,660	39,500	40,000	7,640	16,071	3,505	8,144
10,450	10,500	10,580	19,580	9,295	13,660	40,000	40,500	7,580	15,972	3,406	8,031
10,500	11,000	10,580	19,580	9,241	13,660	40,500	41,000	7,520	15,874	3,307	7,919
11,000	11,500	10,580	19,580	9,142	13,660	41,000	41,500	7,460	15,775	3,208	7,806
11,500	12,000	10,580	19,580	9,043	13,660	41,500	42,000	7,400	15,676	3,109	7,694
12,000	12,500	10,580	19,580	8,944	13,660	42,000	42,500	7,340	15,577	3,011	7,581
12,500	13,000	10,580	19,580	8,845	13,660	42,500	43,000	7,280	15,478	2,912	7,468
13,000	13,500	10,580	19,580	8,746	13,660	43,000	43,500	7,220	15,379	2,813	7,356
13,500	14,000	10,580	19,580	8,647	13,660	43,500	44,000	7,160	15,280	2,714	7,243
14,000	14,500	10,580	19,580	8,548	13,660	44,000	44,500	7,100	15,181	2,615	7,131
14,500	15,000	10,580	19,580	8,450	13,660	44,500	45,000	7,040	15,082	2,516	7,040
15,000	15,500	10,580	19,580	8,351	13,660	45,000	45,500	6,980	14,984	2,417	6,980
15,500	16,000	10,520	19,580	8,252	13,547	45,500	46,000	6,920	14,885	2,318	6,920
16,000	16,500	10,460	19,580	8,153	13,435	46,000	46,500	6,860	14,786	2,219	6,860
16,500	17,000	10,400	19,580	8,054	13,322	46,500	47,000	6,800	14,687	2,121	6,800
17,000	17,500	10,340	19,580	7,955	13,210	47,000	47,500	6,740	14,588	2,022	6,740
17,500	18,000	10,280	19,580	7,856	13,097	47,500	48,000	6,680	14,489	1,923	6,680
18,000	18,500	10,220	19,580	7,757	12,985	48,000	48,500	6,620	14,390	1,824	6,620
18,500	19,000	10,160	19,580	7,658	12,872	48,500	49,000	6,560	14,291	1,725	6,560
19,000	19,500	10,100	19,580	7,560	12,759	49,000	49,500	6,500	14,192	1,626	6,500
19,500	20,000	10,040	19,580	7,461	12,647	49,500	50,000	6,440	14,094	1,527	6,440
20,000	20,500	9,980	19,580	7,362	12,534	50,000	50,500	6,380	13,995	1,428	6,380
20,500	21,000	9,920	19,580	7,263	12,422	50,500	51,000	6,320	13,896	1,329	6,320
21,000	21,500	9,860	19,580	7,164	12,309	51,000	51,500	6,260	13,797	1,231	6,260
21,500	22,000	9,800	19,580	7,065	12,197	51,500	52,000	6,200	13,698	1,132	6,200
22,000	22,500	9,740	19,533	6,966	12,084	52,000	52,500	6,140	13,599	1,033	6,140
22,500	23,000	9,680	19,434	6,867	11,971	52,500	53,000	6,080	13,500	934	6,080
23,000	23,500	9,620	19,335	6,768	11,859	53,000	53,500	6,020	13,401	835	6,020
23,500	24,000	9,560	19,236	6,670	11,746	53,500	54,000	5,960	13,302	736	5,960
24,000	24,500	9,500	19,137	6,571	11,634	54,000	54,500	5,900	13,204	637	5,900
24,500	25,000	9,440	19,038	6,472	11,521	54,500	55,000	5,840	13,105	538	5,840
25,000	25,500	9,380	18,939	6,373	11,409	55,000	55,500	5,780	13,006	439	5,780
25,500	26,000	9,320	18,840	6,274	11,296	55,500	56,000	5,720	12,907	341	5,720
26,000	26,500	9,260	18,741	6,175	11,183	56,000	56,500	5,660	12,808	242	5,660
26,500	27,000	9,200	18,643	6,076	11,071	56,500	57,000	5,600	12,709	143	5,600
27,000	27,500	9,140	18,544	5,977	10,958	57,000	57,500	5,540	12,610	44	5,540
27,500	28,000	9,080	18,445	5,878	10,846	57,500	58,000	5,480	12,511	0	5,480
28,000	28,500	9,020	18,346	5,780	10,733	58,000	58,500	5,420	12,412	0	5,420
28,500	29,000	8,960	18,247	5,681	10,620	58,500	59,000	5,360	12,314	0	5,360
29,000	29,500	8,900	18,148	5,582	10,508	59,000	59,500	5,300	12,215	0	5,300
29,500	30,000	8,840	18,049	5,483	10,395	59,500	60,000	5,240	12,116	0	5,240
30,000	30,500	8,780	17,950	5,384	10,283	60,000	60,500	5,180	12,017	0	5,180
30,500	31,000	8,720	17,851	5,285	10,170	60,500	61,000	5,120	11,918	0	5,120
31,000	31,500	8,660	17,753	5,186	10,058	61,000	61,500	5,060	11,819	0	5,060
31,500	32,000	8,600	17,654	5,087	9,945	61,500	62,000	5,000	11,720	0	5,000
32,000	32,500	8,540	17,555	4,988	9,832	62,000	62,500	4,940	11,621	0	4,940
32,500	33,000	8,480	17,456	4,890	9,720	62,500	63,000	4,880	11,522	0	4,880
33,000	33,500	8,420	17,357	4,791	9,607	63,000	63,500	4,820	11,424	0	4,820
33,500	34,000	8,360	17,258	4,692	9,495	63,500	64,000	4,760	11,325	0	4,760
34,000	34,500	8,300	17,159	4,593	9,382	64,000	64,500	4,700	11,226	0	4,700
34,500	35,000	8,240	17,060	4,494	9,270	64,500	65,000	4,640	11,127	0	4,640
35,000	35,500	8,180	16,961	4,395	9,157	65,000	65,500	4,580	11,028	0	4,580
35,500	36,000	8,120	16,863	4,296	9,044	65,500	66,000	4,520	10,929	0	4,520
36,000	36,500	8,060	16,764	4,197	8,932	66,000	66,500	4,460	10,830	0	4,460
36,500	37,000	8,000	16,665	4,098	8,819	66,500	67,000	4,400	10,731	0	4,400
37,000	37,500	7,940	16,566	3,999	8,707	67,000	67,500	4,340	10,632	0	4,340
37,500	38,000	7,880	16,467	3,901	8,594	67,500	68,000	4,280	10,534	0	4,280
38,000	38,500	7,820	16,368	3,802	8,482	68,000	68,500	4,220	10,435	0	4,220
38,500	39,000	7,760	16,269	3,703	8,369	68,500	69,000	4,160	10,336	0	4,160
39,000	39,500	7,700	16,170	3,604	8,256	69,000	69,500	4,100	10,237	0	4,100

Continued on next page

If your income (line 14 of Form 1) is –		And you are –				If your income (line 14 of Form 1) is –		And you are –			
At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household
		Your standard deduction is –						Your standard deduction is –			
69,500	70,000	4,040	10,138	0	4,040	99,500	100,000	440	4,205	0	440
70,000	70,500	3,980	10,039	0	3,980	100,000	100,500	380	4,106	0	380
70,500	71,000	3,920	9,940	0	3,920	100,500	101,000	320	4,007	0	320
71,000	71,500	3,860	9,841	0	3,860	101,000	101,500	260	3,908	0	260
71,500	72,000	3,800	9,742	0	3,800	101,500	102,000	200	3,809	0	200
72,000	72,500	3,740	9,644	0	3,740	102,000	102,500	140	3,710	0	140
72,500	73,000	3,680	9,545	0	3,680	102,500	103,000	80	3,611	0	80
73,000	73,500	3,620	9,446	0	3,620	103,000	103,500	20	3,512	0	20
73,500	74,000	3,560	9,347	0	3,560	103,500	104,000	0	3,413	0	0
74,000	74,500	3,500	9,248	0	3,500	104,000	104,500	0	3,315	0	0
74,500	75,000	3,440	9,149	0	3,440	104,500	105,000	0	3,216	0	0
75,000	75,500	3,380	9,050	0	3,380	105,000	105,500	0	3,117	0	0
75,500	76,000	3,320	8,951	0	3,320	105,500	106,000	0	3,018	0	0
76,000	76,500	3,260	8,852	0	3,260	106,000	106,500	0	2,919	0	0
76,500	77,000	3,200	8,754	0	3,200	106,500	107,000	0	2,820	0	0
77,000	77,500	3,140	8,655	0	3,140	107,000	107,500	0	2,721	0	0
77,500	78,000	3,080	8,556	0	3,080	107,500	108,000	0	2,622	0	0
78,000	78,500	3,020	8,457	0	3,020	108,000	108,500	0	2,523	0	0
78,500	79,000	2,960	8,358	0	2,960	108,500	109,000	0	2,425	0	0
79,000	79,500	2,900	8,259	0	2,900	109,000	109,500	0	2,326	0	0
79,500	80,000	2,840	8,160	0	2,840	109,500	110,000	0	2,227	0	0
80,000	80,500	2,780	8,061	0	2,780	110,000	110				

# Individual Income Taxes

## ***State Business Tax Climate Index*** **Individual Income Tax Component Rankings**

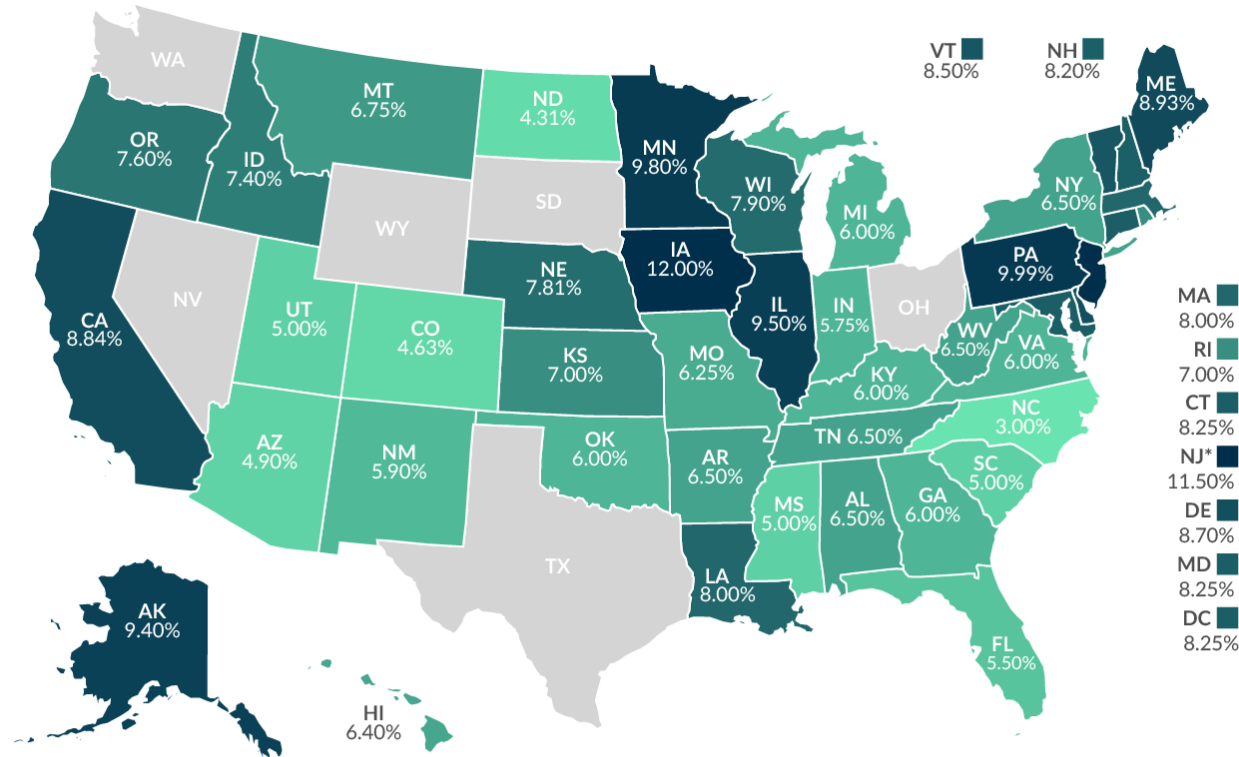
Wisconsin and Select Regional Competitors (2019)

State	Component Ranking
Wisconsin	39th
Illinois	13th
Indiana	15th
Iowa	42nd
Michigan	12th
Minnesota	46th

Source: Tax Foundation, 2019 *State Business Tax Climate Index*.

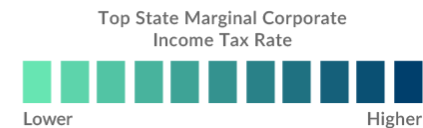
# Corporate Income Taxes

## Top Marginal Corporate Income Tax Rates as of July 1, 2018



Note: (\*) Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. Arkansas has a "benefit recapture," by which corporations with more than \$100,000 of taxable income pay a flat tax of 6.5% on all income, not just on amounts above the benefit threshold. Connecticut's rate includes a 10% surtax, which effectively increases the rate from 7.5% to 8.25%. Surtax is required by businesses with at least \$100 million annual gross income. Illinois' rate includes two separate corporate income taxes, one at a 7.0% rate and one at a 2.5% rate.

Source: State tax statutes, forms, and instructions; Bloomberg BNA.



# Corporate Income Taxes

## Wisconsin Tax Collection Volatility, 1994-2017



Dollar amounts were adjusted for inflation and expressed in 2017 dollars prior to calculating percentage changes using the Consumer Price Index for All Urban Consumers (CPI-U) from the Bureau of Labor Statistics.

Source: U.S. Census Bureau, State & Local Government Finance.



# Corporate Income Taxes

## Corporate Income Tax Credits in Excess of \$1 Million

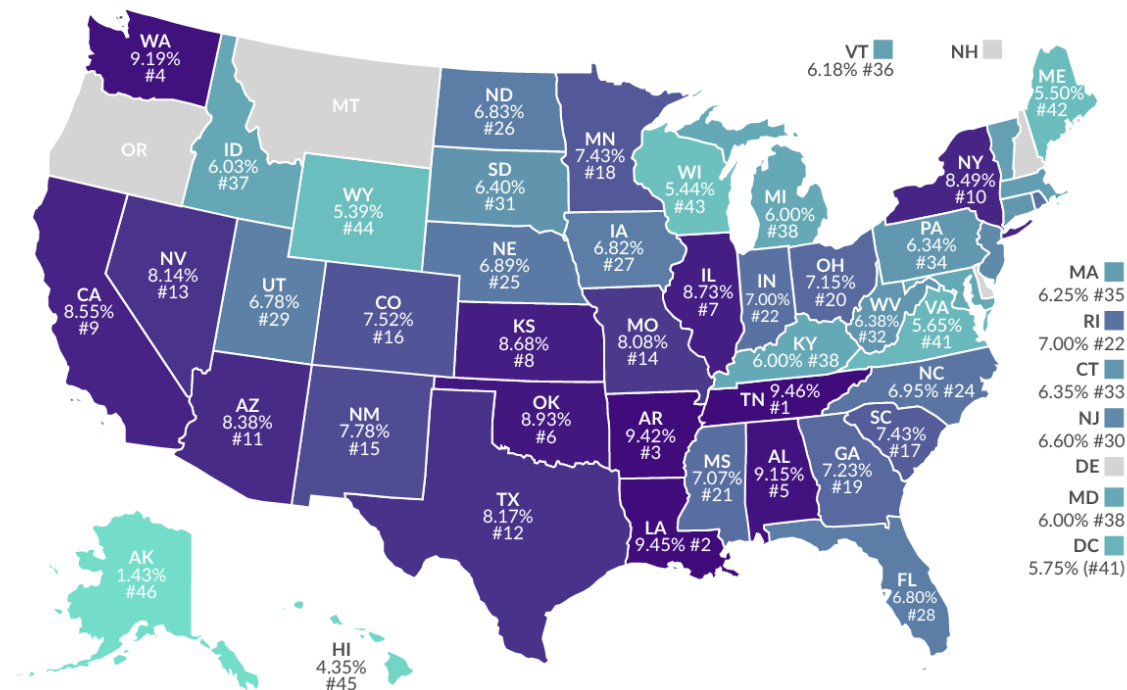
Credit	Amount in FY16
Manufacturing and Agriculture Credit	\$58,000,000
Enterprise Zones Jobs Credit	\$44,400,000
Research Expenditures Credit	\$36,300,000
Supplement to Federal Historic Rehabilitation Credit	\$9,000,000
Super Research Credit Carryforward	\$8,000,000
Economic Development Credit	\$7,000,000
Jobs Tax Credit	\$4,800,000
Engine Research Expense Credit	\$3,000,000
Manufacturing Investment Credit	\$1,600,000
Development Zone and Development Opportunity Zone Credits	\$1,000,000

Source: Wisconsin Department of Revenue and Department of Administration, "Summary of Tax Exemption Devices," February 2017.

# Sales Taxes

## Sales Tax Rates by State

Combined State & Average Local Sales Tax Rates, July 1 2018



Note: City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate. Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1.25%), Utah (1.25%), and Virginia (1%); we include these in their state sales tax. The sales taxes in Hawaii, New Mexico, North Dakota, and South Dakota have broad bases that include many services. This map does not include sales taxes in local resort areas in Montana. Salem County is not subject to the statewide sales tax rate and collects a local rate of 3.3125%. New Jersey's average local score is represented as a negative.

Source: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department websites.



# Sales Taxes

## Average Combined State and Local Sales Tax Rates

Wisconsin and Nearby States (July 2018)

State	State Rate	Avg. Local Rate	Total Rate	National Rank
Illinois	6.25%	2.48%	8.73%	7
Indiana	7.00%	--	7.00%	22
Iowa	6.00%	0.82%	6.82%	27
Michigan	6.00%	--	6.00%	38
Minnesota	6.875%	0.55%	7.43%	18
Wisconsin	5.00%	0.44%	5.44%	43

Source: Tax Foundation, "State and Local Sales Tax Rates 2018, Midyear 2018."

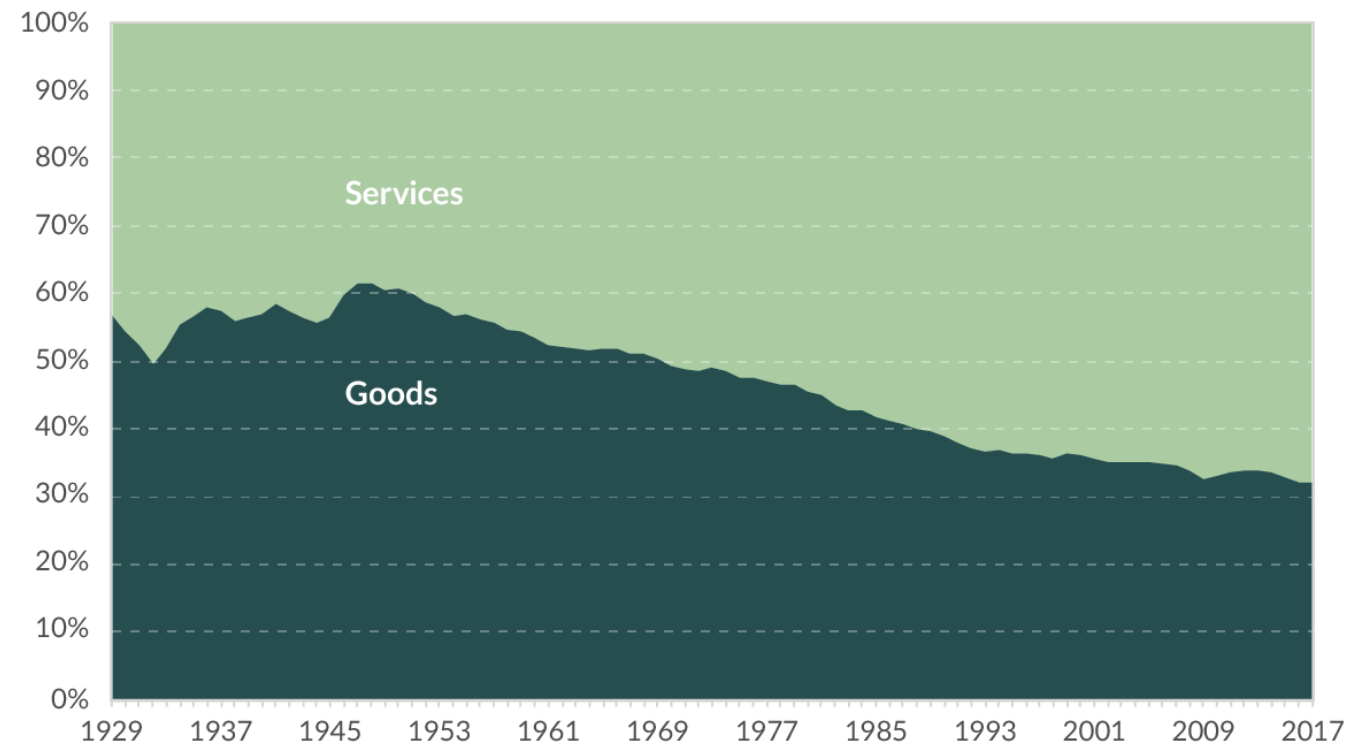
# Sales Taxes

## Sales Tax Base-Broadening Options

	Small Base Broadening	Moderate Base Broadening	Large Base Broadening
Beauty, Barber, Nail, and Other Personal Care Services	✓	✓	✓
Newspapers, Periodicals, and Shoppers Guides	✓	✓	✓
Veterinary Services for Pets	✓	✓	✓
Health Clubs	✓	✓	✓
Auto and Travel Clubs	✓	✓	✓
Interior Design	✓	✓	✓
Tax Preparation Services	✓	✓	✓
Disinfecting and Exterminating	✓	✓	✓
Admissions to Educational Events and Places	✓	✓	✓
Self-Service Laundry and Dry-Cleaning Services	✓	✓	✓
Meals Furnished by Institutions of Higher Education*	✓	✓	✓
Bank Account Service Charges	✓	✓	✓
Fuel and Electricity for Residential Use	✓	✓	✓
Caskets and Burial Vaults	✓	✓	✓
Accounting Services *	✓	✓	✓
Sewerage Services	✓	✓	✓
Food and Food Ingredients (not including bottled water)	✓	✓	✓
Bottled Water	✓	✓	✓
Funeral Services, excluding Caskets and Vaults	✓	✓	✓
Dues and Fees Paid to Business Associations and Fraternal Organizations	✓	✓	✓
Motor Fuels		✓	✓
Legal Services		✓	✓
Prescription Drugs and Medicines (excluding insulin)			✓
Insulin and Equipment Used in the Treatment and Testing of Diabetes			✓
Medical Devices (including Wheelchairs, Home Oxygen Equipment)			✓
Medical Devices (including wheelchairs, home oxygen equipment)			✓

# Sales Taxes

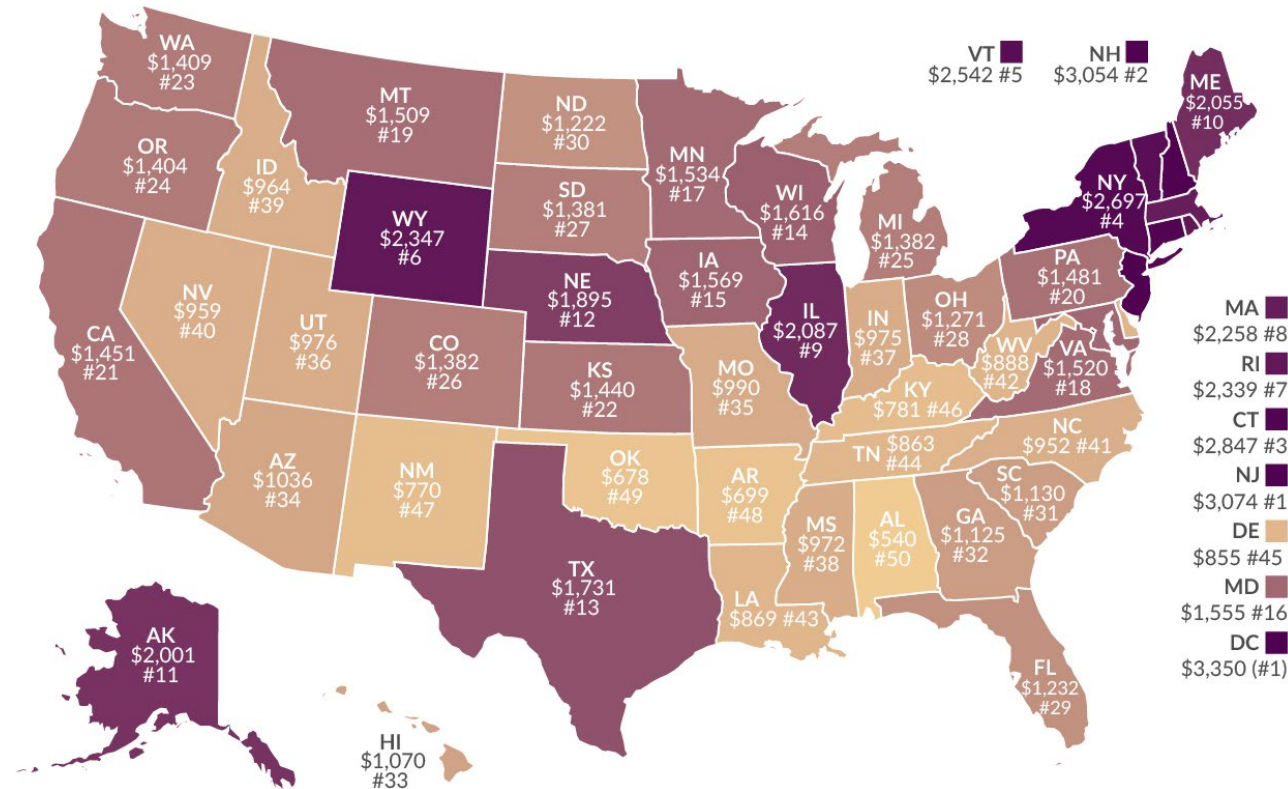
**Percentage of Total Personal Consumption Expenditures  
Goods vs. Services, U.S., 1929-2017**



Source: Bureau of Economic Analysis, Regional Economic Accounts.

# Property Taxes

## State and Local Property Tax Collections per Capita, FY 2015



Note: D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Source: Census Bureau; Tax Foundation calculations.



# Tax Reform Options

## Wisconsin's Rankings on the *State Business Tax Climate Index*, Current (2019) and Proposed

	Overall Rank	Corporate Taxes	Individual Taxes	Sales Taxes
Current Law	32	35	39	8
Option A	12	10	15	9
Option B	14	4	30	7
Option C	6	1	30	7
Option D	14	3	33	7



# All Options

- Repeal marriage penalty
- Repeal itemized deductions credit
- Conform to the TCJA's new full expensing allowances under IRC Sec. 168(k)
- Repeal 3 percent corporate income tax surcharge
- Conform with new federal treatment of net operating losses (NOLs)
- Eliminate throwback rule in the corporate income tax
- Pursue sales tax base expansion



# Option A

<b>Individual</b>	<b>Corporate</b>	<b>Sales</b>
<ul style="list-style-type: none"><li>➤ Flat 4.82 percent rate</li><li>➤ Standard deduction conforms to federal</li><li>➤ Personal exemption repealed</li></ul>	<ul style="list-style-type: none"><li>➤ Rate reduced to 7 percent</li></ul>	<ul style="list-style-type: none"><li>➤ Moderate base broadening</li><li>➤ Rate increased to 5.75 percent</li></ul>

# Option B

## Individual Income Tax Rate Schedule

Single Filers		Married Filing Jointly	
Taxable Income	Rate	Taxable Income	Rate
\$0+	4%	\$0+	4%
\$10,000+	5%	\$20,000+	5%
\$40,000+	6.80%	\$80,000+	6.80%

Individual	Corporate	Sales
<ul style="list-style-type: none"> <li>➤ Standard deduction conforms to federal</li> <li>➤ Personal exemption repealed</li> </ul>	<ul style="list-style-type: none"> <li>➤ Rate reduced to 4.6 percent</li> </ul>	<ul style="list-style-type: none"> <li>➤ Moderate sales tax base broadening</li> <li>➤ Maintains current rate</li> </ul>

# Option C

## Individual Income Tax Rate Schedule

Single Filers		Married Filing Jointly	
Taxable Income	Rate	Taxable Income	Rate
\$0+	4%	\$0+	4%
\$10,000+	5%	\$20,000+	5%
\$40,000+	6.80%	\$80,000+	6.80%

Individual	Corporate	Sales
<ul style="list-style-type: none"> <li>➤ Standard deduction conforms to federal</li> <li>➤ Personal exemption repealed</li> </ul>	<ul style="list-style-type: none"> <li>➤ Fully repealed</li> </ul>	<ul style="list-style-type: none"> <li>➤ Large base broadening</li> <li>➤ Rate increased slightly to 5.2 percent</li> </ul>

# Option D

## Individual Income Tax Rate Schedule

Single Filers		Married Filing Jointly	
Taxable Income	Rate	Taxable Income	Rate
\$0+	4%	\$0+	4%
\$20,000+	5%	\$40,000+	5%
\$150,000+	7.50%	\$300,000+	7.50%

Individual	Corporate	Sales
<ul style="list-style-type: none"> <li>➤ Standard deduction marriage penalty repealed but sliding-scale retained</li> <li>➤ Personal exemption retained</li> </ul>	<ul style="list-style-type: none"> <li>➤ Rate reduced to 4 percent</li> </ul>	<ul style="list-style-type: none"> <li>➤ Moderate base broadening</li> <li>➤ Maintains current rate</li> </ul>

# Key Takeaways

- Wisconsin's corporate income tax is high and a volatile source of revenue. Reducing the rate would lessen the need for industry- or employer-specific incentives.
- Wisconsin's top individual income tax rate is high, and the graduated-rate structure discourages work, savings, and investment.
- Modernizing the sales tax is the key to the reducing tax rates elsewhere in the tax code.
- Not having a stable, simple, modern, fair, and pro-growth tax system holds the state back from reaching its full potential.

# WISCONSIN

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## TAX OPTIONS

A GUIDE TO FAIR, SIMPLE, PRO-GROWTH REFORM

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Questions?