

Wisconsin's top marginal rate of

7.65%

is among the highest in the nation.

By 2023, Wisconsin & Minnesota will stand alone with the highest top marginal individual income tax rates of all the non-coastal states.

States with individual income tax rates higher than Wisconsin's



already have or are in the process of moving toward a flat tax – including Illinois, Michigan, Indiana and Iowa.

BADGER INSTITUTE

Tax Reform to Help Wisconsin Prosper

A flat tax would dramatically improve Wisconsin's standing in an increasingly competitive tax environment – and could be done without raising taxes on anyone.

THE PROBLEM

Wisconsin's century-old progressive income tax – a graduated-rate structure with four brackets – is a tax on productivity. It makes the state less competitive, disproportionately affects small businesses, encourages outbound migration and reduces returns to labor, dampening hours worked and workforce participation rates.

While Wisconsin has made improvements to its three lowest marginal individual income tax rates since 2019, its top marginal rate of 7.65% remains among the highest in the country. This rate applies to approximately two-thirds of pass-through business income, affecting many of the 95% of Wisconsin's small businesses that "pass through" their tax liability to be paid on their owners' tax returns.

The Badger State and Minnesota will soon stand alone with the highest top marginal individual income tax rates of all the non-coastal states. Only seven states and Washington, D.C., have higher top rates than Wisconsin.

Wisconsin's corporate income tax rate of 7.9% is higher than the top rates in all but 12 states and the District of Columbia. Corporate income taxes discourage capital investment in the state.

THE TRENDS

Across the nation, people are fleeing high-tax states for those with lower taxes. A new era of increased remote work flexibility is contributing to states' decisions to reduce income tax rates. States that stand still risk falling behind their peers.

In response, a wave of tax reform has swept the country over the past two years, with a historic number of states improving their tax competitiveness by reducing income tax rates and enacting flatter structures. For example:

- Fourteen states already have or are in the process of moving toward a flat tax including Illinois, Michigan, Indiana and Iowa.
- Twenty-five states have lower top marginal individual income tax rates now than they did in 2012.
- Nine states have no individual income tax at all.
- Wisconsin, meanwhile, remains mired in mediocrity, placing 27th overall in the Tax Foundation's 2023 State Business Tax Climate Index.



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THE SOLUTION

A flat tax would foster growth and investment, help Wisconsin keep and attract talent, lighten the burden on small businesses and encourage highnet-worth individuals – who can easily move elsewhere – to remain in the Badger State.

In short, a flat tax would dramatically improve Wisconsin's standing in an increasingly competitive tax environment. Reducing corporate income taxes as part of any reform would make Wisconsin more attractive to businesses of all types.

It is essential if Wisconsin is to provide opportunity for its poorest residents and prosperity for all.

Given Wisconsin's strong budget surplus and continued projected revenue growth, policymakers have an opportunity to rebalance Wisconsin's tax structure by shifting reliance away from economically harmful taxes on productivity and toward less harmful taxes on consumption.

At 5%, Wisconsin's state sales tax rate is well below average, and the average combined state and local sales tax rate of 5.43% is the fourth lowest in the country. The state's sales tax base excludes many consumer services, providing opportunities to broaden it.

Policymakers can use moderate sales tax base broadening, sales tax rate increases or both to offset income tax and corporate tax rate reductions. All of Wisconsin's immediate neighbors have state and average local sales tax rates in the 6% to 8% range, leaving plenty of room for Wisconsin to raise sales taxes while remaining at or below the levels of its neighbors.

Will some taxpayers pay more?

No taxpayers would have to face an income tax increase if a flat tax is adopted. Wisconsin has a sliding scale standard deduction that would allow the state to adopt a single-rate structure without raising the income taxes of those currently in lower brackets. Low- and moderate-income taxpayers could be held harmless by increasing the sliding scale standard deduction and adjusting phaseout thresholds.



The Badger Institute/Tax Foundation report offers five comprehensive tax reform options to enhance Wisconsin's competitiveness by reducing economically harmful taxes on labor and investment.

For more information on Wisconsin's tax structure and reform ideas, visit:

badgerinstitute.org/taxes-and-spending