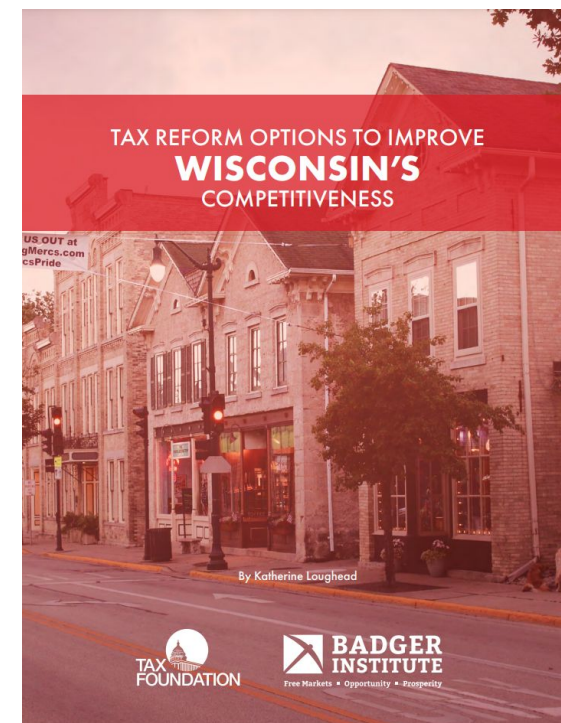
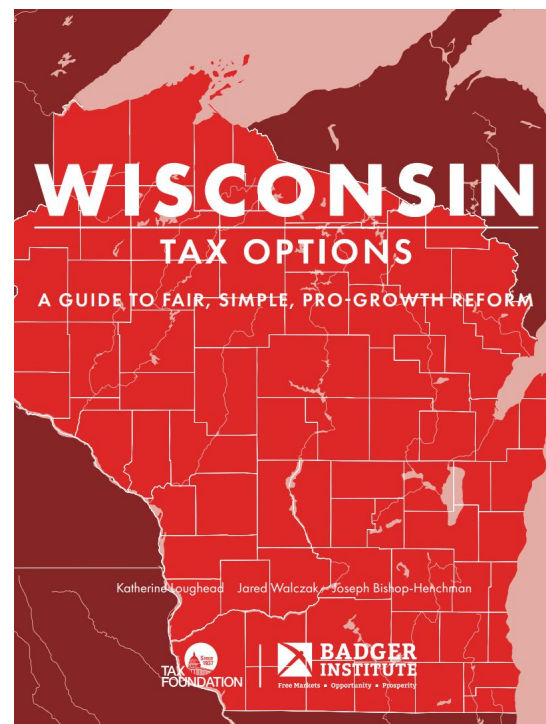


Considerations for Improving Wisconsin's Tax Structure and Competitiveness

About the Tax Foundation

- Principles of Sound Tax Policy:
 - Simplicity
 - Transparency
 - Neutrality
 - Stability



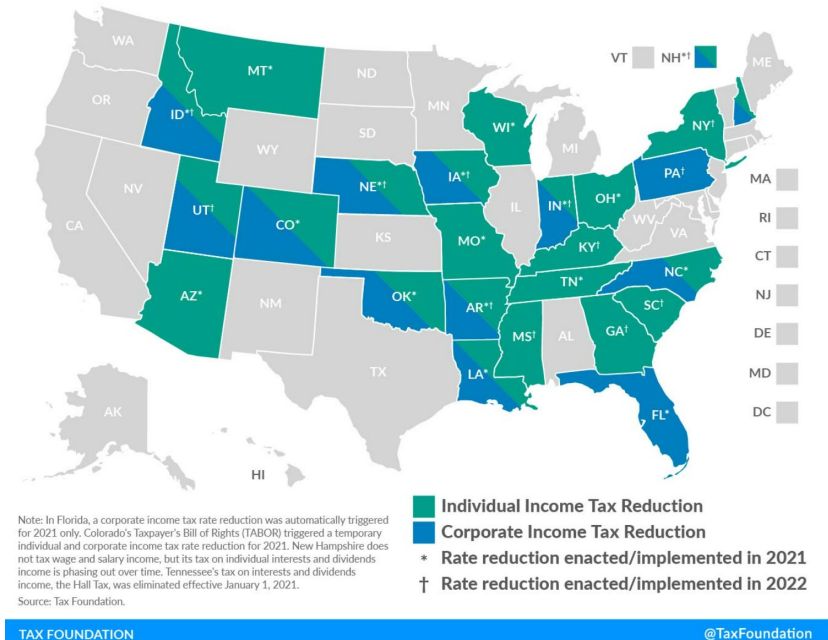
Wisconsin's Revenue Outlook

- Wisconsin is ending FY 2021-23 with the largest budget surplus in state history and projecting another massive surplus for the FY 2023-25 biennium
- Surpluses are preferable to deficits, but surpluses mean the state is overtaxing its residents
- Not all tax cuts yield equal economic benefits
- Wisconsin should prioritize tax relief measures that improve tax structure while promoting long-term economic growth

Why Tax Reform?

- The state tax reform landscape has never been more competitive
- Most states are treating tax reform as a continuous process
- States that stand still are falling behind
- Wisconsin has an opportunity to capitalize upon the rise in remote and hybrid workplace flexibility
- Tax policy is directly within policymakers' control and can yield near immediate benefits

Income Tax Rate Reductions Enacted or Implemented in 2021 and 2022
As of July 13, 2022



Wisconsin's Current Tax Landscape

- Wisconsin ranks 27th overall on the *State Business Tax Climate Index*, slightly below average
 - Wisconsin performs relatively poorly on individual income taxes (38th) and corporate income taxes (31st)
- Wisconsin has the 9th-highest top marginal individual rate and the 13th-highest corporate rate
- Wisconsin's tax collections per capita (\$5,269) are slightly below the national average (\$5,616)

Wisconsin	
Tax Type	Rank
Overall Rank	27
Corporate Taxes	31
Individual Taxes	38
Sales Taxes	7
Property Taxes	15
Unemp. Insur. Taxes	31

Benefits of Moving to a Flat Tax

- Flat taxes promote economic growth compared to graduated-rate structures that penalize productivity
- Flat taxes are simpler and more transparent
- Flat taxes treat every dollar of taxable income neutrally
- Flat taxes structures promote efficient stewardship of taxpayers' resources
- Deductions and exemptions retain progressivity toward the lower end of the income spectrum
- Even with a less progressive income tax structure, Wisconsin's tax and transfer system will remain highly progressive

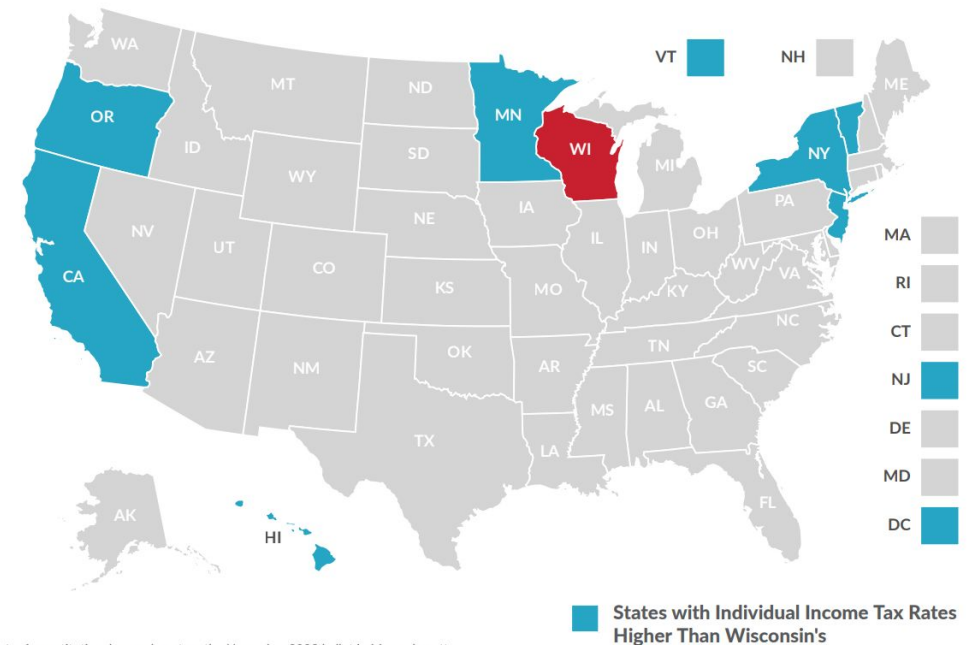
The Flat Tax Revolution

- In the past two years, five states have enacted laws converting to flat tax structures:
 - Arizona (as of 2023)
 - Mississippi (as of 2023)
 - Idaho (as of 2023)
 - Georgia (forthcoming: 2024)
 - Iowa (forthcoming: 2026)
- Thirteen states have or are implementing a flat tax structure.

The Income Tax Landscape is Growing More Competitive

- Wisconsin's top marginal individual income tax rate of 7.65 percent is the 9th-highest in the country
- Of the 24 states that have enacted or implemented individual income tax rate reductions since 2021, Wisconsin and New York are the only two that did not reduce the top marginal rate
- Twenty-five states have lower top marginal rates now than they did in 2014

States with Individual Income Tax Rates Higher Than Wisconsin's
Expected as of January 1, 2023



Note: A constitutional amendment on the November 2022 ballot in Massachusetts would create a new top rate of 9 percent that would take effect January 1, 2023.
Source: Tax Foundation.

Benefits of Reducing the Top Marginal Individual Income Tax Rate

- The economic literature is clear that lowering top marginal rates leads to increases in aggregate hours worked, higher wages, and faster rates of gross state product (GSP) growth
- 95 percent of Wisconsin's businesses pay taxes under the individual rather than the corporate rate
- Approximately two-thirds of Wisconsin pass-through business income is exposed to the top marginal rate

Designing Tax Triggers to Ensure Revenue Stability

- Tax triggers can help ensure revenue stability and limit the unpredictability associated with tax policy changes
- Triggers are an efficient way to dedicate a portion of future revenue growth to tax relief
- Tax trigger design best practices:
 - Use actual revenues, not projected revenues, as the trigger baseline
 - Adjust for inflation
 - Avoid confining triggers to specific dates
 - Don't get too caught up on specific rate targets

Repealing the Personal Property Tax

- Generates only a small amount of revenue but is complex and time-consuming to comply with
- Revenue has already been set aside to reimburse local taxing jurisdictions for forgone revenue
- Several other states are moving away from business personal property taxes



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