Taxes



How to confront and overcome Wisconsin's income tax competitiveness problem

By Ben Eisen and Wyatt Eichholz

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Wisconsin faces significant and growing tax competitiveness challenges with respect to its income tax treatment of individuals and businesses. Competitive tax systems contribute to productivity and economic growth: They help attract skilled workers and investment, and they create better incentives for current residents to engage in productive economic activity. This chapter illustrates the extent of Wisconsin's income tax policy challenge in regional and national context and presents a path to pro-growth reform.

Key findings:

- Wisconsin's approach to the taxation of personal and business income puts the state at a competitive disadvantage. The Tax Foundation's 2026 State Tax Competitiveness Index ranks the Badger State 34th best nationally on individual income tax competitiveness and 31st on corporate income tax competitiveness.
- Wisconsin's top individual income tax rate is a major barrier to competitiveness. Among regional comparison states, only Minnesota has a higher top rate than Wisconsin's 7.65 percent. In a national context, the state's competitiveness challenge is growing because many states are reducing their top tax rates. The number of states with top rates below 5 percent has climbed from 15 in 2006 to 26 in 2026.
- The top individual income tax rate is also a business tax rate for many firms. Most Wisconsin's businesses are organized as pass-through entities that pay taxes through the individual income tax code.
- Wisconsin-specific research indicates that income tax reform would spur growth. Modeling published by CROWE finds that lower flat rates would increase output, capital, labor, after-tax income and consumption. Analysis for the Badger Institute estimates that a 5.1 percent flat tax would increase GDP by $1.2 billion to $1.6 billion per year and support 4,500 to 5,000 additional jobs.

Recommendations:

- Adopt a competitive single-rate individual income tax. Wisconsin should replace its current graduated individual income tax with a single-rate structure and set that rate as low as fiscal conditions responsibly allow.
- Make spending restraint the principal means of creating fiscal room for deeper reductions. Moving to a 4.4 percent single rate would require approximately $1.9 billion in additional fiscal room. Revenue triggers and a shift of some of the tax burden from income toward consumption could help lower the rate further over time.
- Undertake a business tax competitiveness review. Wisconsin should examine options for lowering the statutory corporate income tax rate while considering other features of the tax code that affect investment, expansion and competitiveness, including the treatment of capital investment, net operating loss rules and apportionment.

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Introduction

Wisconsin faces significant and growing tax competitiveness challenges with respect to its income tax treatment of individuals and businesses.

This is an important policy problem because competitive tax systems contribute to productivity and economic growth. A competitive and pro-growth tax environment helps attract skilled workers and investment, and it creates better incentives for current residents to engage in productive economic activity.

This analysis aims to illustrate the extent of the state's competitiveness challenge in regional and national context and show how reductions to key rates can improve the state's competitiveness and its growth prospects.

Wisconsin's overall tax system ranks in the top half of states, according to the Tax Foundation's 2026 State Tax Competitiveness Index. That is a meaningful improvement from where the state stood in the past. However, the state's overall ranking masks a specific and important weakness: Wisconsin's individual and corporate income tax systems remain comparatively uncompetitive. These are among the parts of the tax code most relevant to work, investment, entrepreneurship, business formation, and the location decisions of mobile people and capital.

This analysis focuses on Wisconsin's income tax treatment of individuals and businesses. It shows that the state's high top individual income tax rate and relatively high corporate income tax rate leave Wisconsin poorly positioned compared to many regional competitors. It also explains why the individual income tax is central to the competitiveness of its business tax environment, since many businesses pay taxes through the individual income tax code rather than the corporate income tax.

In addition to illustrating the problem, this analysis presents a path to fiscally responsible reform. Wisconsin should replace its current graduated individual income tax with a single-rate structure and set that rate as low as fiscal conditions responsibly allow. Spending restraint should be the principal mechanism for creating room for deeper reductions over time, potentially supplemented by revenue triggers and other reforms that shift the tax burden away from income.

The state should also undertake a broader review of business taxation with the goal of improving Wisconsin's overall tax competitiveness.

Why income tax competitiveness matters

A competitive tax environment is an important contributor to long-term economic success. Tax policy affects individual and business decisions about where to live, work, invest, and start businesses. Skilled professionals are often mobile and may take the tax treatment of their income into account when deciding where to live. Capital is more mobile still, and businesses and investors evaluate the relative competitiveness of different tax environments when determining where to allocate resources.

Tax competitiveness reflects both the overall tax burden and tax rates in key areas to which mobile individuals and capital are particularly sensitive, such as the marginal tax rate on high earners and the corporate income tax rate.

This analysis does not attempt a comprehensive review of the literature on tax competitiveness. Readers interested in a more detailed discussion should consult the Tax Foundation's 2026 State Tax Competitiveness Index. The report summarized its literature review by noting that differences in state tax structures "play a role in a state's economic success or failure, and often a substantial one."[1] The current edition similarly emphasizes that while businesses consider a wide range of factors when making investment decisions, taxes are "an important part of the mix."[2] States that adopt modern, competitive, pro-growth tax structures can therefore better position themselves for long-term economic growth.

While overall tax competitiveness is important, this analysis focuses on a specific dimension of tax policy — the income tax treatment of individuals and businesses. There are two reasons for this choice.

First, uncompetitive income tax rates for individuals and businesses can be particularly harmful to a state's economic growth prospects. A substantial body of economic research finds that high marginal income tax rates can weaken economic performance by reducing incentives for work, investment and entrepreneurship. For example, the OECD's review of the tax and growth literature[3] concludes that personal and corporate income taxes tend to be among the most harmful forms of taxation for long-term economic growth, particularly when compared with consumption-based taxes.[4] Corporate income taxes can be particularly damaging because they directly affect the after-tax return to investment and the location decisions of firms operating in a competitive global economy. Empirical research finds that higher corporate tax rates are associated with lower levels of investment and entrepreneurship, reinforcing the importance of maintaining competitive business tax systems.[5]

The second reason for focusing on personal and corporate income taxes is that Wisconsin performs relatively poorly in these areas. As the next section of this analysis discusses in greater detail, while Wisconsin's overall tax

system ranks in the top half of U.S. states for competitiveness as measured by the Tax Foundation, its income tax treatment of individuals and businesses is uncompetitive both nationally and regionally. Given the evidence that these forms of taxation are particularly important for a state's economic prospects, Wisconsin's relatively uncompetitive income tax system in these areas represents an important policy challenge deserving specific attention. The next section examines the extent of Wisconsin's income tax competitiveness challenge.

Wisconsin's income tax competitiveness problem

Wisconsin's overall tax structure sits in the middle of the national and regional pack for competitiveness. Specifically, Wisconsin ranks 21st in the Tax Foundation's 2026 State Tax Competitiveness Index. Wisconsin ranks behind Indiana, Missouri, Michigan and Iowa, but ahead of Illinois, Ohio and Minnesota.

The income tax components of the index show a more serious problem. Wisconsin ranks 34th nationally on individual income tax competitiveness and 31st on corporate tax competitiveness. Among the eight Midwestern states shown in Table 1, Wisconsin ranks fifth overall but near the bottom on both major income tax measures.

Wisconsin's weak individual income tax ranking is driven largely by its high top individual income tax rate. Wisconsin's top rate of 7.65 percent is high nationally and regionally. Among the comparison states shown in Figure 1, only Minnesota has a higher top individual income tax rate.

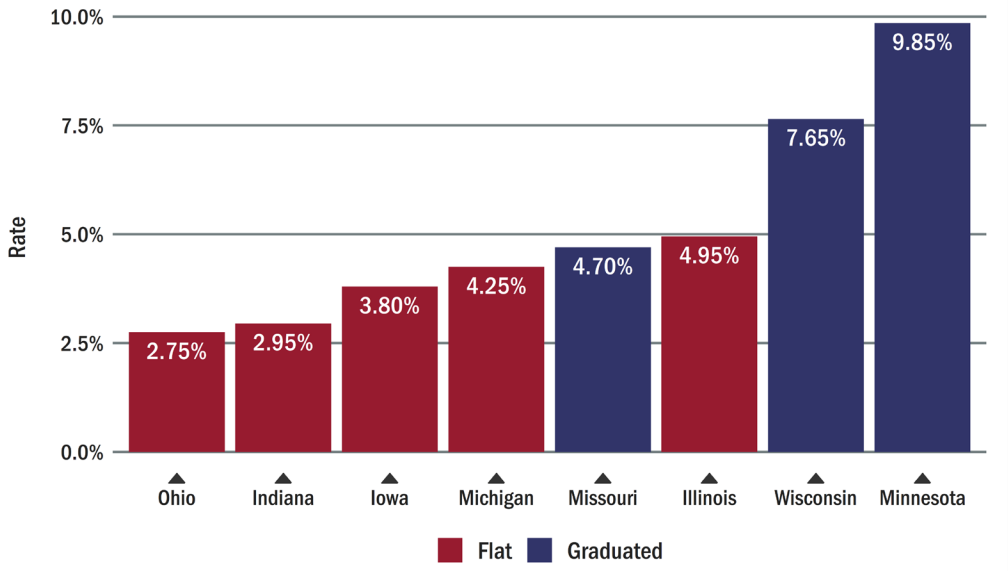
Wisconsin's top individual income tax rate is substantially higher than rates in several nearby states. Ohio's top rate is 2.75 percent, Indiana's is 2.95 percent, Iowa's is 3.8 percent, Michigan's is 4.25 percent, Missouri's is 4.7 percent, and Illinois' is 4.95 percent. Wisconsin's 7.65 percent rate leaves the state much closer to Minnesota's 9.85 percent rate than to the lower-rate systems adopted by many regional competitors.

Table 1: Regional tax competitiveness rankings

State	Overall	Individual income tax	Corporate income tax
Indiana	10	20	7
Missouri	12	17	5
Michigan	16	19	22
Iowa	17	11	25
Wisconsin	**21**	**34**	**31**
Illinois	38	13	42
Ohio	39	33	45
Minnesota	44	44	43

Source: Tax Foundation, "2026 State Tax Competitiveness Index," Oct. 30, 2025.

Figure 1: Top individual tax rates



Source: Tax Foundation

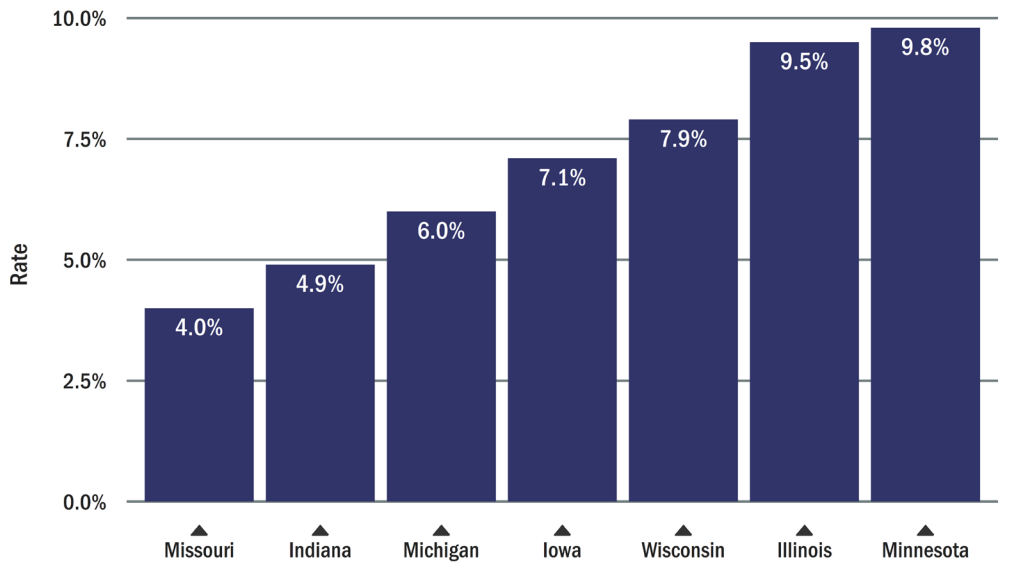
This matters because top marginal rates affect the tax treatment of additional income earned in the state. They influence the incentives facing skilled workers,[6] entrepreneurs,[7] investors and business owners.[8] These taxpayers are often more mobile than the general population, and their decisions can have significant implications for a state's economy. A Tax Foundation analysis of IRS migration data observed a pattern of higher-income residents moving to low-tax states.[9]

The top individual income tax rate is also a business tax rate for many firms. About 95 percent of Wisconsin's businesses are organized as pass-through entities, including sole proprietorships, partnerships, S corporations and limited liability companies.[10] The core of the Wisconsin economy is organized as pass-throughs, from contractors to family-owned restaurants to small businesses to professional practices.[11] These businesses do not pay the corporate income tax. Their income passes through to owners and is taxed under the individual income tax code. For these businesses, Wisconsin's top individual income tax rate directly affects the tax treatment of business income.[12]

This connection is central to Wisconsin's competitiveness challenge. The individual income tax affects workers and households, but it also affects entrepreneurs and pass-through businesses. A high top rate reduces the after-tax return to business income and can make Wisconsin less attractive for business formation, expansion and retention.

Wisconsin's corporate income tax rate adds to the concern. Wisconsin's top corporate income tax rate is 7.9 percent, higher than most regional competitors. Missouri's corporate tax rate is 4 percent,

Figure 2: Top corporate tax rates



Source: Tax Foundation

Indiana's is 4.9 percent, Michigan's is 6 percent, and Iowa's is 7.1 percent. Wisconsin's rate is lower than Illinois' and Minnesota's, but it remains high enough to contribute to the state's weak corporate tax competitiveness ranking.

Corporate tax competitiveness is affected by many factors beyond the statutory rate, including apportionment rules, the treatment of net operating losses, credits, deductions, throwback rules, the treatment of capital investment, taxes on business inputs, and interactions with other parts of the tax code. Badger Institute research on business tax competitiveness has discussed these issues in greater detail.[13] For purposes of this analysis, the corporate tax comparison reinforces the broader point: Wisconsin's income tax treatment of business activity is uncompetitive with many states and specifically several neighbors.[14]

Recent national trends make Wisconsin's position more concerning. Many states have been moving toward lower, flatter and more competitive income tax systems. As of 2026, far more states have been cutting top individual income tax rates than raising them. In 2006, 15 states had top income tax rates below 5 percent. By 2026, that number had climbed to 26 states. Wisconsin's top rate remains well above that threshold. The state is therefore losing ground to many competitors even when its own rate stays essentially unchanged.[15]

Wisconsin's income tax structure leaves the state with a clear competitiveness problem. The top individual income tax rate — to which pass-through business income is exposed — is high. The corporate income tax rate is comparatively high. These features weaken the state's position in the competition for workers,

entrepreneurs, investment and business activity.

Improving tax competitiveness will spur growth

The broader economic literature provides strong reasons to believe that lower and more competitive income tax rates can improve a state's economic prospects.[16] Wisconsin-specific research points in the same direction.

Two analyses are particularly relevant. The first is modeling by the University of Wisconsin-Madison's Center for Research on the Wisconsin Economy, or CROWE, examining the economic effects of different flat income tax rates in Wisconsin.[17] The second is Don Bruce's analysis for the Badger Institute of the economic implications of adopting a 5.1 percent flat-rate income tax in the state.[18] Both analyses indicate that reducing Wisconsin's individual income tax rate and moving toward a flatter structure would have positive effects on important economic indicators.

CROWE's modeling examines several potential flat tax rates and estimates the resulting effects on output, capital, labor, after-tax income and consumption. The analysis finds positive effects across these indicators as the flat rate is reduced below the revenue-neutral level.

The precise effect sizes depend on modeling assumptions, but the direction of the results is important. The analysis indicates that lowering Wisconsin's income tax rate would positively influence output, capital formation, labor, after-tax income and consumption. These are core measures of economic performance and household well-being.

The Bruce study reaches a similar conclusion. That analysis examined the potential macroeconomic effects of a 5.1 percent flat-rate income tax for Wisconsin. It found positive effects on gross domestic product, investment and employment. Specifically, the analysis estimated that a 5.1 percent flat tax would increase GDP, increase investment and support additional job creation over time.

Together, these two Wisconsin-specific analyses reinforce the broader pro-growth case for income tax reform. CROWE's modeling indicates positive effects from reducing Wisconsin's tax rate across a range of economic indicators. Bruce's

Table 2: Economic impacts of flat income tax reform

Flat rate	Tax change	Output change	Capital change	Labor change	After-tax income change	Consumption change
4.95%	-4.31%	1.47%	2.08%	1.07%	1.57%	1.37%
4.25%	-9.49%	2.50%	3.27%	1.98%	2.90%	2.42%
3.05%	-18.34%	4.82%	5.88%	4.11%	5.72%	4.76%
2.50%	-22.42%	6.17%	7.37%	5.37%	7.30%	6.11%

Source: Junjie Guo and Ananth Seshadri, Jan. 8, 2025, "Tax Cuts vs. Public Spending in Wisconsin," CROWE.

analysis finds that a 5.1 percent flat tax would increase GDP, investment and employment. The results are consistent with the broader literature showing that reducing Wisconsin's top income tax rate would promote growth, investment and economic decision-making.

Policy recommendations

Wisconsin should adopt a competitive single-rate tax

Wisconsin should replace its current graduated individual income tax with a single-rate structure. As discussed earlier in this analysis, Wisconsin's high top income tax rate weakens the state's competitiveness and creates disincentives for work, investment, entrepreneurship and business formation. Moving to a single rate would directly address this problem by replacing the large gap between Wisconsin's lowest and highest marginal rates with a simpler and more competitive structure.

This matters especially because many Wisconsin businesses are organized as pass-through entities whose owners pay taxes on business income through the individual income tax system. Reducing the top rate would therefore improve Wisconsin's treatment of both individual and business income.

The key question is how low that single rate can be set while maintaining a balanced budget.

That question is complicated by the way Wisconsin has reduced income taxes in recent years. The state currently has four individual income tax rates: 3.5 percent, 4.4 percent, 5.3 percent and 7.65 percent. While the lower rates have been reduced, the top rate remains high. As a result, simply converting the current system into a revenue-neutral flat tax would produce a single rate above three of Wisconsin's four existing rates.

CROWE's revenue modeling helps illustrate the tradeoff. Its dynamic model accounts for changes in economic behavior in response to tax policy. Because lower tax rates can expand economic activity, some of the revenue loss from a lower rate would be offset by a larger tax base generated through increased investment, job creation and consumer spending.

Our interpolation of CROWE's analysis suggests that a single rate of approximately 5.53 percent would maintain projected long-run tax revenue in fiscal year 2025-26. This figure is useful as a benchmark, but it should not be treated as the target rate for reform. A 5.53 percent flat tax would substantially

Table 3: Macroeconomic impacts of a 5.1 percent flat tax

Category	Percentage point increase	Unit increase per year
GDP	0.366	$1.2 billion to $1.6 billion
Investment	0.241	$120 million to $130 million
Employment	0.165	4,500 to 5,000 jobs

Source: Don Bruce, April 2023, "The Economic Implications of a Flat-Rate Income Tax for Wisconsin," Badger Institute.

reduce Wisconsin's 7.65 percent top rate, but it would also impose a higher statutory marginal rate on income currently subject to the 3.5 percent, 4.4 percent and 5.3 percent rates. Wisconsin's standard deduction and refundable earned income tax credit would continue to reduce the burden on many lower-income households, but the political and distributional challenges of such a change are nevertheless significant.

The objective of tax reform in this area should be to establish a single-rate structure and set that rate as low as fiscal conditions responsibly allow. Table 4 illustrates the scale of the choices policymakers face.

The table shows how much fiscal room would be required to achieve more competitive rates. Moving from the estimated revenue-neutral rate of 5.53 percent to a 4.4 percent single rate, equal to Wisconsin's current second-lowest marginal rate, would require approximately $1.9 billion in additional fiscal room, which represents 8.37 percent of all tax income.

Deeper reductions would require correspondingly greater spending restraint or alternative revenues, and achieving these reductions either immediately or over time would require creating additional fiscal room. Spending restraint should be the principal means of creating that room. The more effectively policymakers can reduce spending or at least restrain the rate of spending growth below the rate of revenue growth, the further they can reduce the single rate while maintaining a balanced budget.

Revenue triggers could help extend this process over time. Under such an approach, future rate reductions would take effect automatically once specified revenue or fiscal benchmarks are met. A number of states have used revenue triggers as part of multiyear income tax reform, allowing further reductions to proceed when fiscal conditions make them affordable.

Policymakers could also consider shifting some of the tax burden away from income and toward consumption. Wisconsin's sales tax is comparatively low and its tax base contains numerous exemptions.

Table 4: Revenue impacts of single-rate income tax reform

Flat rate	Tax change	Revenue change	Total taxes after change
5.53%*	0.00%	$0	$22.686 billion
4.95%	-4.31%	-$978 million	$21.708 billion
4.40%*	-8.37%	-$1.90 billion	$20.79 billion
4.25%	-9.49%	-$2.153 billion	$20.533 billion
3.05%	-18.34%	-$4.161 billion	$18.525 billion
2.50%	-22.42%	-$5.086 billion	$17.600 billion

Source: CROWE figures and Wisconsin FY2025-26 projected tax revenue.
**The estimates for the 5.53 percent and 4.4 percent rates are not drawn directly from the CROWE analysis but are derived from our extrapolation of CROWE's estimates, which indicate that each basis-point reduction in the single-rate tax would reduce revenue by approximately $16.8 million.*

The state's combined state and average local sales tax rate comes out to 5.72 percent, currently the ninth lowest in the nation, according to the Tax Foundation. Broadening the sales tax base, increasing the sales tax rate or some combination of the two could generate revenue to finance deeper reductions in the individual income tax. Such a shift would have an economic rationale because research generally finds personal income taxes to be more harmful to growth than consumption taxes. Associated distributional concerns could be addressed through provisions such as the standard deduction and earned income tax credit.

The key objective in this area should be making Wisconsin's personal income tax system much more competitive and pro-growth. To achieve this, lawmakers should establish a single-rate income tax established as low as fiscal conditions responsibly allow. Spending restraint, revenue triggers and, if policymakers choose, a shift toward consumption taxation can all help lower that rate further over time to help the Badger State move toward a simpler, more competitive and more growth-oriented tax system.

Additional steps to improve business tax competitiveness

Wisconsin should take additional steps to improve the tax treatment of business income. As this analysis has discussed, moving to a lower flat individual income tax would itself be an important business tax reform, since many businesses pay taxes through the individual income tax code. But Wisconsin's business tax competitiveness problem extends beyond the individual income tax.

The state ranks 31st nationally on corporate tax competitiveness in the Tax Foundation's 2026 State Tax Competitiveness Index. Wisconsin's 7.9 percent corporate income tax rate is also high relative to many regional competitors. The state should pursue a broader review of its approach to business taxation.

Specifically, Wisconsin should establish a business tax competitiveness review focused on improving the tax treatment of corporate and business income. This review should examine options for lowering the statutory corporate income tax rate, while considering other features of the tax code that affect investment, expansion and competitiveness. These include the treatment of capital investment, net operating loss rules, apportionment and sourcing rules, throwback rules, taxes on business inputs, credits and deductions, and provisions that add complexity without a clear pro-growth purpose.

Corporate tax competitiveness is more complicated than a simple comparison of statutory rates. A state's business tax climate is shaped by how taxable income is defined, how investment is treated, how multistate firms are taxed and how different taxes interact with one another. Wisconsin should approach business tax reform in a comprehensive and disciplined way rather than treating the corporate rate in isolation.

The extent to which Wisconsin can make progress on these reforms will depend in large part on spending restraint.

Lowering the corporate income tax rate or improving the treatment of business investment may require fiscal room, just as further reductions in the individual income tax rate would. Lawmakers should therefore pair business tax reform with a broader commitment to controlling spending growth. Doing so would allow Wisconsin to improve its tax competitiveness over time while maintaining a responsible fiscal position.

A serious business tax competitiveness review would complement the individual income tax reforms recommended in this analysis. Together, these reforms would improve the treatment of workers, entrepreneurs, pass-through businesses and corporations, helping make Wisconsin more attractive for investment, business formation and long-term economic growth.

Conclusion

Wisconsin has a clear income tax competitiveness problem. The state's overall tax ranking is middling, but its individual and corporate income tax systems remain uncompetitive compared with many regional competitors. Wisconsin's high top individual income tax rate is especially important because it affects workers, entrepreneurs, investors and pass-through businesses. Its corporate income tax rate also remains high relative to many nearby states and should be addressed as part of a broader business tax competitiveness agenda.

The national context makes reform more important. Many states have moved toward lower, flatter and more competitive income tax systems. Wisconsin's top individual income tax rate remains well above the rates in many competitor states. As those states continue to improve their tax systems, Wisconsin risks losing ground.

Wisconsin can begin correcting this problem immediately by moving toward a single-rate individual income tax and setting that rate as low as fiscal conditions responsibly allow. Doing so would reduce the top individual income tax rate, simplify the tax code, improve the treatment of pass-through business income and establish a more competitive structure. Further rate reductions can then be phased in over time as spending restraint and revenue growth create additional fiscal room, potentially aided by revenue triggers. Policymakers could also consider shifting some of the tax burden from income toward consumption if doing so allows for deeper reductions in economically harmful income tax rates. A broader review of business taxation with an eye to competitiveness-enhancing and pro-growth reform would be an important complement to the proposed income tax reform.

These steps would make the state's tax system more competitive and improve its prospects for long-term growth.



About the authors



Ben Eisen is the vice president of policy and research at the Badger Institute.



Wyatt Eichholz is a policy and legislative associate at the Badger Institute. He graduated from the University of Alabama in 2024 with a Master of Arts in economics.

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