

The logo of the Wisconsin Department of Revenue is located in the top right corner. It features a circular seal with the text "WISCONSIN DEPARTMENT OF REVENUE" around the perimeter. Inside the seal, there are two figures: one on the left holding a scale and a sword, and one on the right holding a staff. The seal is set against a blue background with a white wavy border at the top of the slide.

# **Department of Revenue and Tax Reform Initiatives 2017 State Budget Bill**

Secretary Rick Chandler  
Wisconsin Department of Revenue  
Joint Committee on Finance  
March 29, 2017

The top of the slide features a decorative blue banner with a white wavy border. In the background of the banner is the seal of the University of Wisconsin, which includes a central figure holding a book and a staff, surrounded by the text "UNIVERSITY OF WISCONSIN" and "1848".

# Topics

- Policy initiatives:
  - Income tax
  - Property tax
  - Sales tax
- Operational initiatives:
  - Collections
  - Lottery

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# Tax Policy Goals

- Reduce Wisconsin's tax burden
  - Put more money in people's pockets
  - Make Wisconsin competitive with other states
- Direct the most relief to areas where it's needed the most
  - Middle class income tax relief is a priority
  - Property tax relief for homeowners is a priority
- Provide broad-based tax relief
- Encourage work



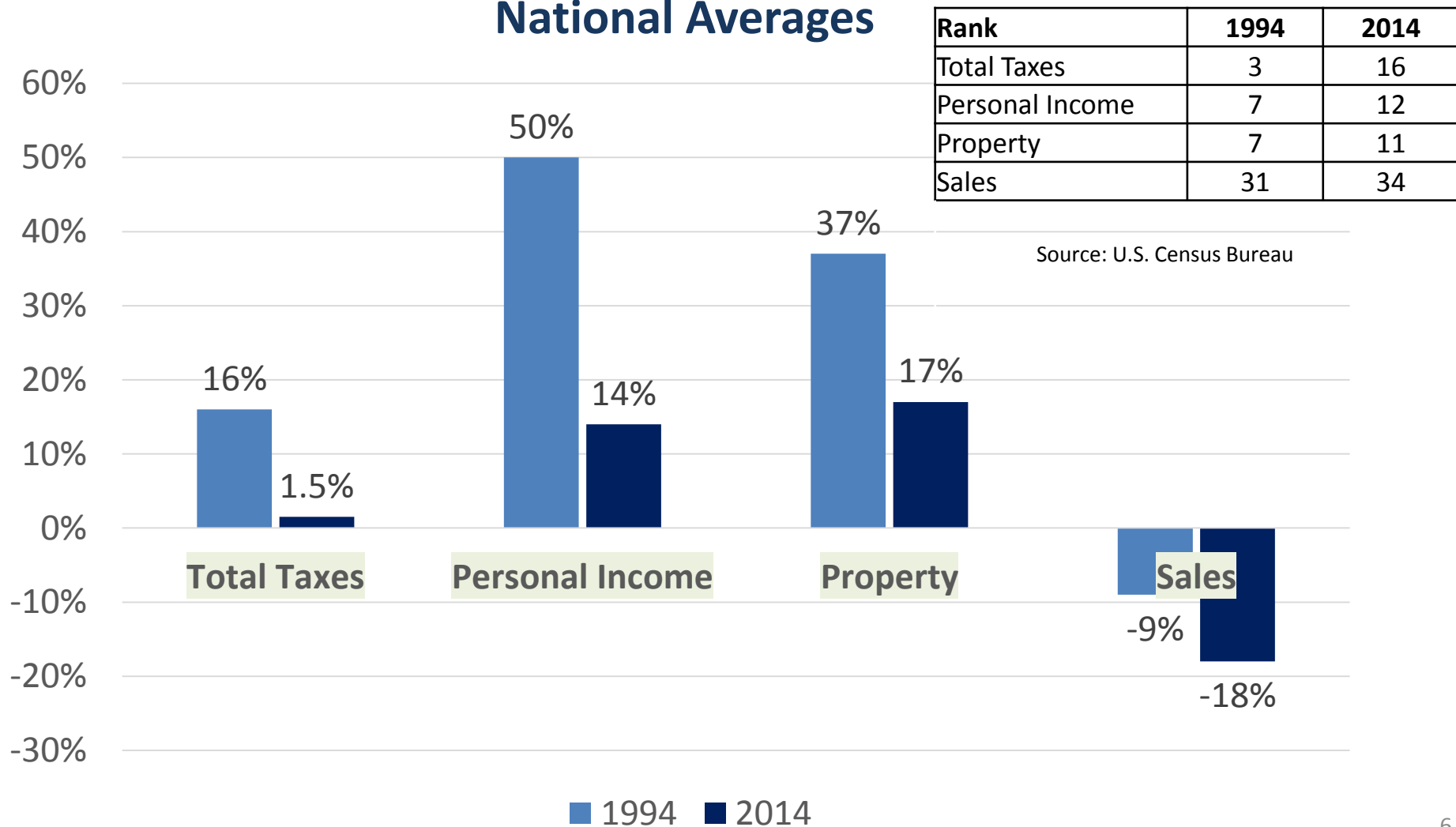
## Tax Reform is an Ongoing Priority

- Income tax rates were reduced significantly in Tax Years 2013 and 2014, with the emphasis on middle class rate cuts
- Property taxes on a median value home have decreased since December of 2010
- Many deductions and credits used by middle class families have been created or increased
  - Health Savings Account deduction
  - Health insurance premium deduction
  - Married filer standard deduction
  - Child care deduction
  - Private school tuition deduction
  - College tuition deduction

# Wisconsin's Tax Burden is Decreasing

- Wisconsin's state-local tax burden is now only 1.5% above the national average
  - Wisconsin's tax rank was 16<sup>th</sup> among the 50 states in 2014
  - Source: U.S. Census Bureau report, December 2016
- We're making steady progress
  - In 1994, we ranked 3<sup>rd</sup>
  - In 2010, we ranked 9<sup>th</sup>
- There is a two-year lag in these rankings
  - We will improve even more when the ongoing effects of the income tax rate cuts and the continued property tax controls are shown in updated rankings

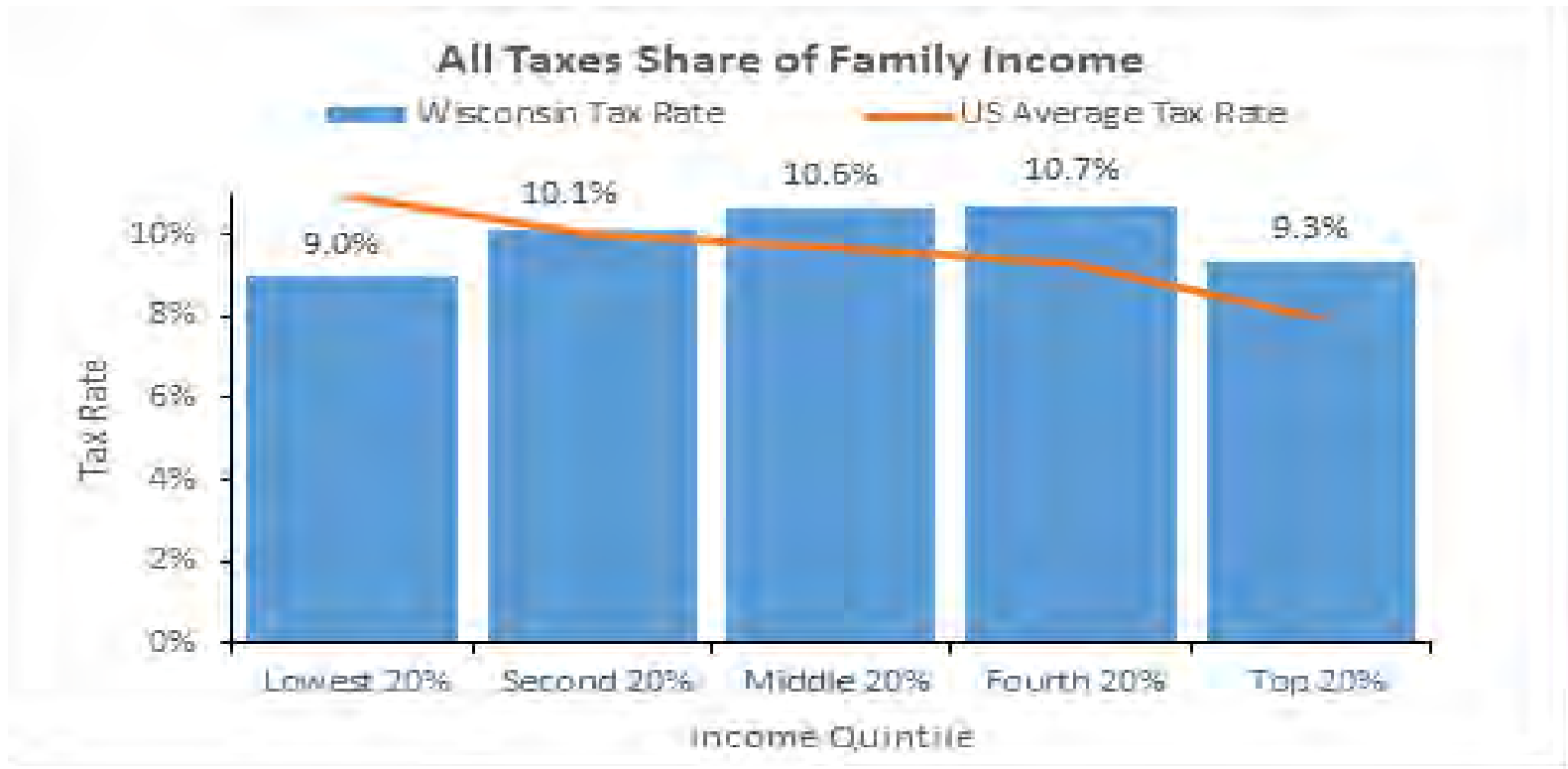
## Wisconsin's Tax Burden Compared with National Averages



Rank	1994	2014
Total Taxes	3	16
Personal Income	7	12
Property	7	11
Sales	31	34

# Distribution of Overall Tax Burden

*Wisconsin ranked 14<sup>th</sup> best in inequality index*



Source: "Who Pays?" study, Institute on Taxation and Economic Policy, January 2015



## 2017 Budget Bill Initiatives Provide Continued Tax Relief

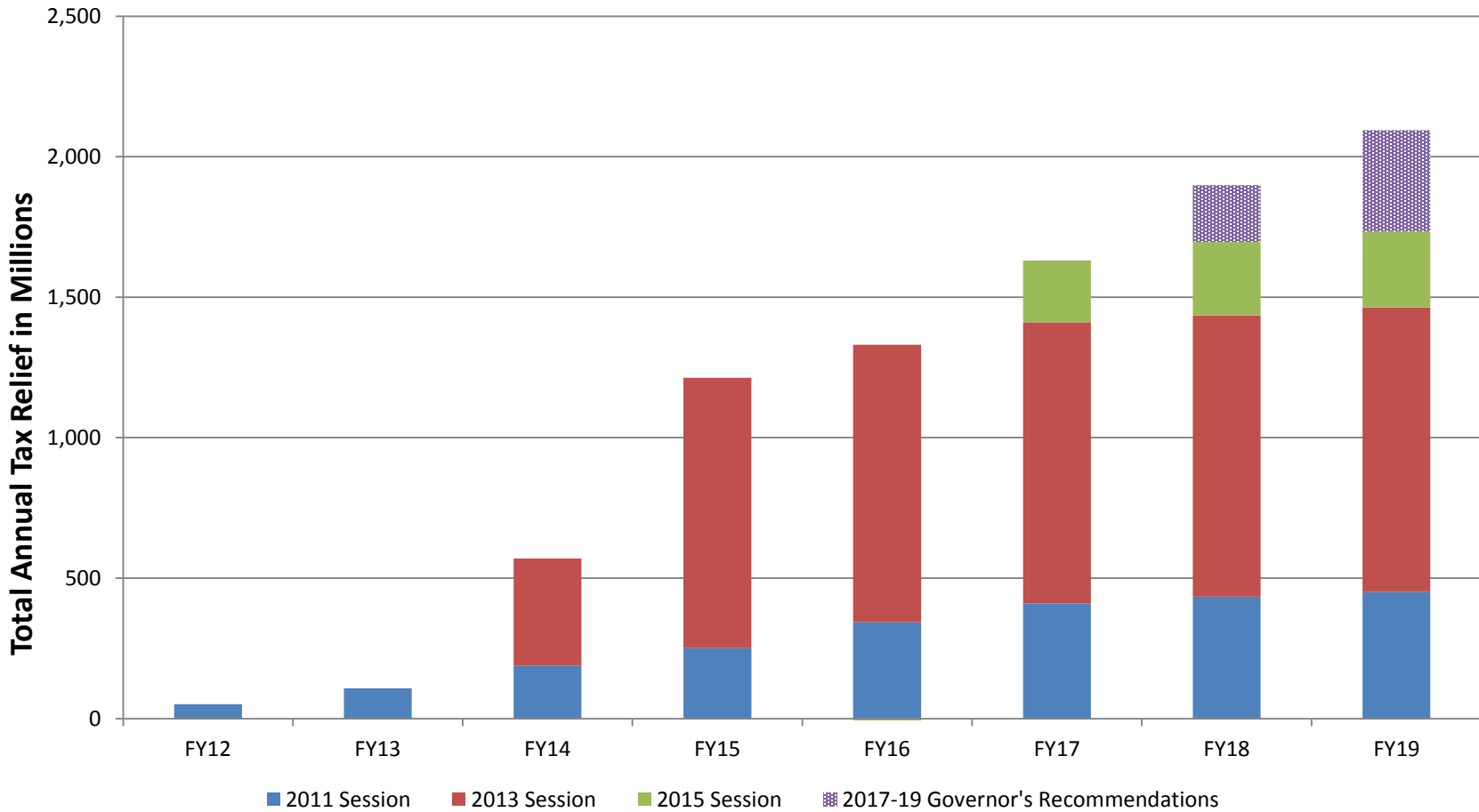
- Additional income tax rate cuts in Tax Years 2017 and 2018
  - Decrease bottom rate from 4.00% to 3.90%
  - Decrease rate for second bracket from 5.84% to 5.74%
  - Broaden second bracket for all filers
- Continued property tax relief
  - Property taxes for a median value home will continue to drop
  - The state property tax will be eliminated
- Earned Income Tax Credit increase
- Sales tax holiday
- Total tax relief in FY18 and FY19: \$593 million



# Annual Tax Cuts Add Up

*Tax Cuts Total \$4.7 Billion for FY12-FY17*

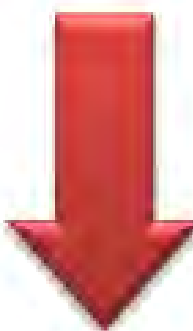
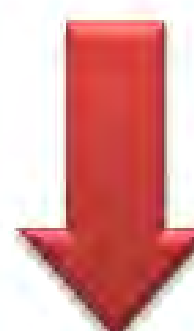
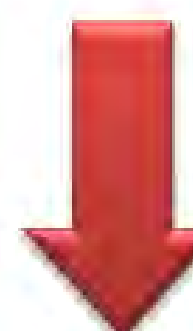

*FY18 and FY19 Proposals Add to Total*




# Governor Walker's Tax Reform Initiatives

## Reduce Income Tax Rates

### Tax Rate Reduction, TY12-TY17

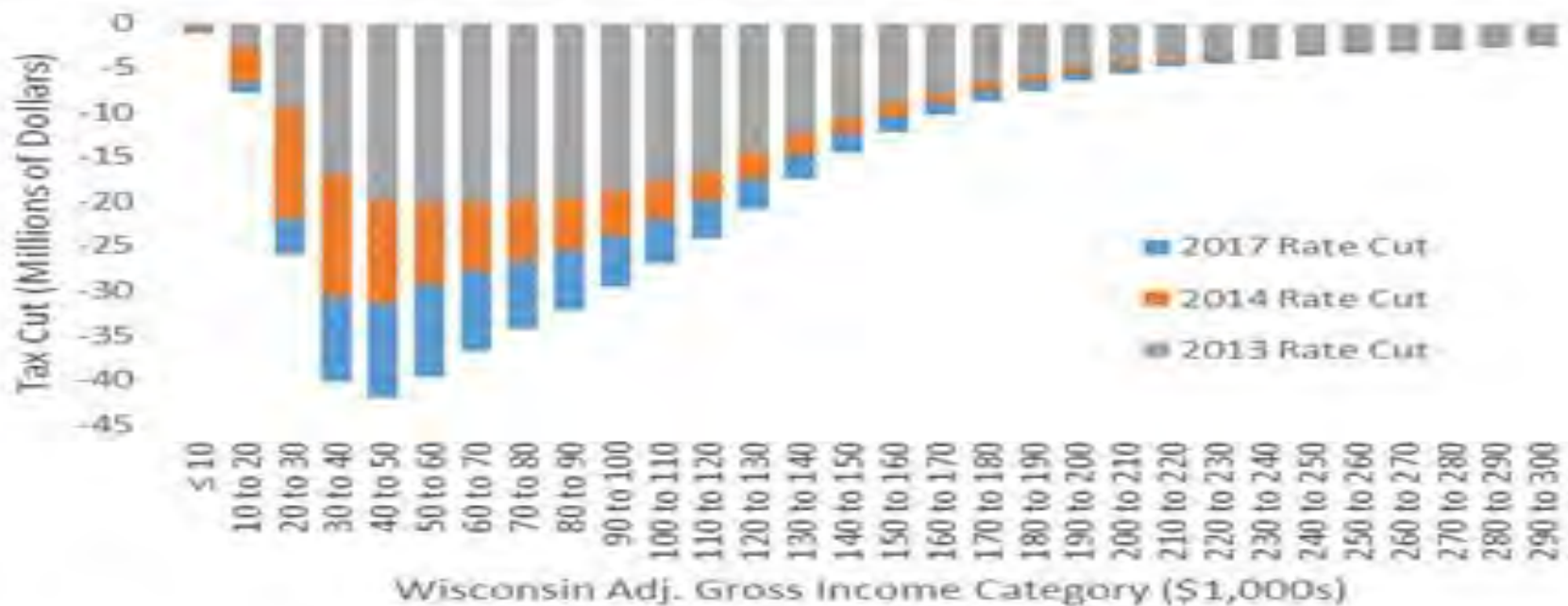
Rate	Bottom Rate	2nd Rate	3rd Rate	4th Rate	Top Rate
Before	4.60%	6.15%	6.50%	6.75%	7.75%
					
After	3.90%	5.74%	6.27%	7.65%	


  
 Tax rate reduction for the 3rd rate bracket. The threshold for the 3rd rate is \$37,450. The 2nd rate threshold is \$29,960.

# Income Tax Payments Are Reduced For Taxpayers At All Income Levels

*Middle class taxpayers see the greatest relief*

Tax Relief by Income Class in 2017, All Filers  
Effect of 2013, 2014, and 2017 Rate Cut



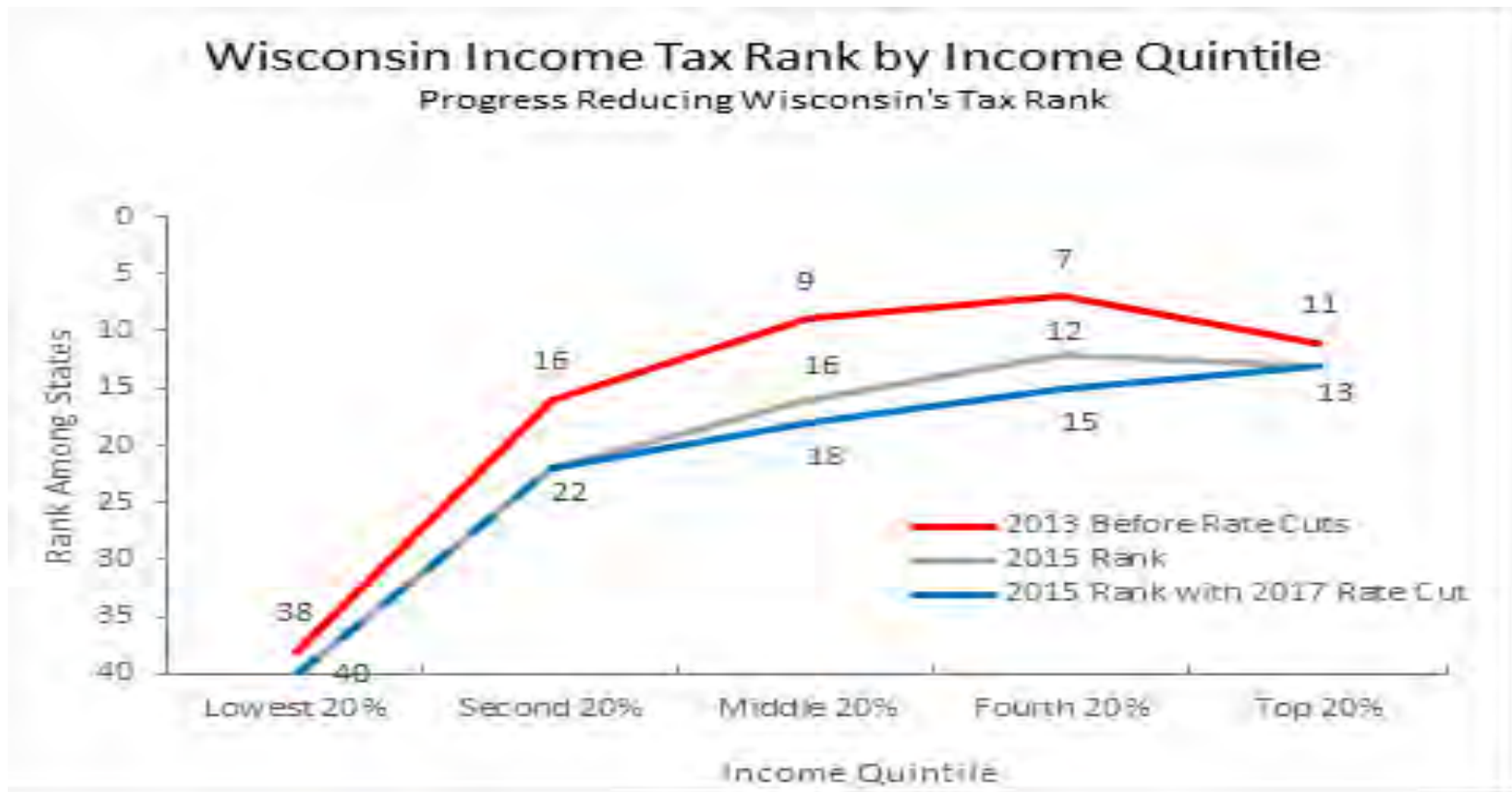
## Middle Class Taxpayers See Significant Tax Relief

Median income family	TY13 reduction	TY14 reduction	TY15 reduction	TY16 reduction	TY17 reduction	TY18 reduction	Six-year total
Rate cuts effective in TY13	-\$186	-\$187	-\$185	-\$184	-\$184	-\$182	-\$1,108
Rate cuts effective in TY14	--	-\$57	-\$59	-\$59	-\$59	-\$61	-\$295
Rate cuts effective in TY17	--	--	--	--	-\$69	-\$70	-\$139
<b>Total</b>	-\$186	-\$244	-\$244	-\$243	-\$312	-\$313	<b>-\$1,542</b>
<b>Percent Reduction</b>	<b>-4.8%</b>	<b>-6.2%</b>	<b>-6.3%</b>	<b>-6.3%</b>	<b>-8.0%</b>	<b>-8.1%</b>	

*A median income family of four will receive combined **Tax Relief of \$1,542** from tax year 2013 to tax year 2018. Their income taxes will be **8.1% lower** than under prior law for tax year 2018.*

# Distribution of Income Tax Burden

*Wisconsin rank improved after middle class rate cuts*



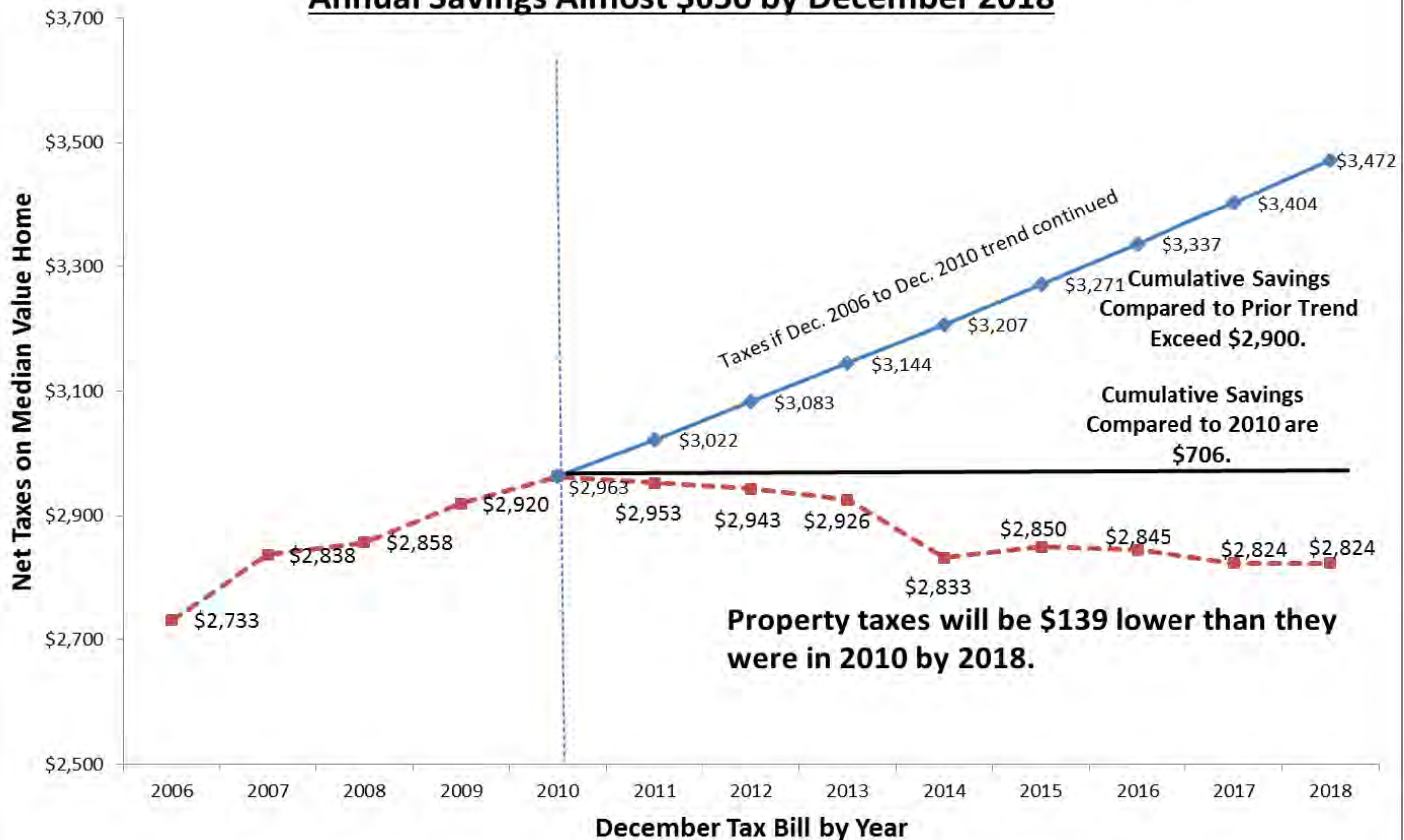
Source: DOR calculations based on "Who Pays?" study, Institute on Taxation and Economic Policy, January 2015

# Holding the Line on Property Taxes

*Property taxes have been reduced for the Median Value Home*

*Typical Home Property Taxes \$139 Lower than Eight Years Ago*

**Annual Savings Almost \$650 by December 2018**





# State Portion of Property Tax Eliminated

- Eliminate the state portion of property tax bills
  - Along with other measures in previous budgets, this will mean that the owner of a median value home will have saved \$706 compared with the 2010 property tax bill
- General fund revenues will fund the forestry account in the conservation fund in the future
  - FY18: \$89 million
  - FY19: \$92 million

# Earned Income Tax Credit Increase

- Increase funding for the Wisconsin EITC by \$22 million
- The EITC encourages work by:
  - Reducing the impact of higher tax rates as earnings increase for low income workers
  - Offsetting the decrease in public benefits that low income workers experience as earnings increase
  - 26 states have a state EITC to supplement the federal EITC
- The budget bill increases Wisconsin's EITC for low income workers with one child from 4% to 11% of the federal credit in Tax Year 2018
  - Wisconsin's EITC for low income workers with two children is 11% and for three or more children is 34%
- The budget bill creates a three-year hold-harmless honeymoon period to prevent the EITC from dropping when low income workers with children get married





# Tax Credits to Encourage Work

- **Young adult employment assistance credit**
  - Provide a refundable credit for young adults who age out of home placement programs where they received protection and services
  - Helps young adults transition into workforce
  - 125% of federal EITC for claimants with no children
- **Homestead credit**
  - Provide credit to seniors, people with disabilities, and people who are working
  - Index calculation of credit to inflation for seniors and people with disabilities



# Sales Tax Holiday

- Create a "back to school" sales tax holiday for two days in August
- "Back to school" items below certain thresholds will be exempt from sales tax
  - Clothing under \$75
  - Computers under \$750
  - Certain school supplies under \$75
- Tax savings: \$11 million per year



# DOR Positions

- The budget bill reduces DOR's position count by a net 20 positions
  - 12 DOR HR positions are moving to DOA, so there would be a net decrease of 8 state positions
- DOR is requesting the elimination of 69 positions and the addition of 49 project positions
- DOR position count in FY19 would be 1,182, which is lower than in 1975



# DOR Positions

- The positions DOR proposes to add are project positions for:
  - Collecting delinquent taxes (20)
  - Processing bills (18)
  - State Debt Collection program (8)
  - Unclaimed property program (2)
  - Dashboard to monitor local government spending (1)

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## DOR Positions

- The new project positions will not be used to hire auditors to visit Wisconsin businesses
- The positions added in past budgets were not for auditing Wisconsin businesses
  - 2015 budget: Added audit positions were focused on out of state businesses, dealing with nexus, sales and use tax, and apportionment issues
  - 2013 budget: Added positions were for processing bills, collecting taxes due, anti-fraud initiative



# Lottery Product Information Funding

- Increase funding for lottery product information budget by \$3 million SEG per year
  - Currently \$7.5 million per year
  - Restores buying power to FY08 level (last time budget was increased)
- Return on investment:
  - Cost: \$3 million SEG per year
  - Increased sales of \$12 million in FY18 and \$15 million in FY19
- Total lottery administrative expenses were less than 6% of sales in FY16, below statutory cap of 10%
  - Administrative expenses will still be below cap under budget proposal

# Appendix 1

## Wisconsin's Revenue and Tax Rank

### *State and Local Revenue for 2013-14*

	Wis % of personal income	Wis Rank	% above + % below - U.S. average
All Taxes	10.8%	16	+ 1.5%
Property Taxes	3.9%	11	+ 17.3%
Individual Income Taxes	2.8%	12	+ 14.1%
General Sales Taxes	2.0%	34	- 17.8%
Corporate Income Taxes	0.4%	15	+ 3.1%
Fees and Charges	3.1%	29	-4.0%
All Taxes and Fees	13.8%	22	+ 4.8%

- The most recent combined state and local revenue rankings are displayed above
- Ranks exclude the District of Columbia

## Appendix 2

# Wisconsin's State and Local Tax Mix

### Sources of tax revenue

*State and local tax collections for 2015-16, Millions of Dollars*

Property taxes (gross levy less school levy credit)	\$9,767.2	36.5%
Income taxes	7,740.8	28.9
Sales taxes	5,065.8	18.9
Motor vehicle taxes (incl. gas tax & vehicle registration fees)	1,728.6	6.5
Corporate income taxes	963.0	3.6
Other (incl. cig & other excise taxes, utility, ins premium, real estate transfer fee, and misc.)	1,517.6	5.4
<b>Total</b>	<b>\$26,783.0</b>	<b>100%</b>



## Appendix 3

# DOR Position Changes in 2017 Budget Bill

LFB Ref.	Position Description	Count
Item 1, p. 381	Eliminate 2013 project positions	-33 GPR
Item 1, p. 381	Eliminate unclaimed property project positions	-2 GPR
Item 1, p. 381	Eliminate IT project positions	-3 SEG, GPR
Item 4, p. 382	Eliminate vacant IT positions	-9 GPR
Item 4, p. 390	Eliminate Lottery warehouse, telesell positions	-10 SEG
Item 5, p. 383	Transfer HR positions to DOA	-12 GPR, PR, SEG
	<b>Subtotal: Positions reduced</b>	<b>-69</b>
Item 1, p. 384	Add delinquent tax project positions	+20 GPR
Item 1, p. 384	Add billing project positions	+18 GPR
Item 2, p. 384	Add debt collection project positions	+8 PR
Item 2, p. 382	Add unclaimed property project positions	+2 PR
Item 6, p. 383	Add local government dashboard project position	+1 GPR
	<b>Subtotal: Positions added</b>	<b>+49</b>
	<b>Net position reduction</b>	<b>-20</b>