



Improving Wisconsin's Tax Climate

Governor Walker's Tax Reforms for Individuals and Businesses

Wisconsin Department of Revenue

July 2013

The top of the slide features a decorative blue banner with a white wavy border. In the background of the banner is the Wisconsin State Seal, which includes the text 'WISCONSIN' and '1848'.

Tax Reform Goals

- Reduce Wisconsin's above-average tax burden
 - Put more money in people's pockets
 - Make Wisconsin more competitive with other states
 - Middle class income tax relief is a priority
- Create business tax incentives that highlight Wisconsin's improved business climate
- Provide broad-based tax relief



The Importance of Tax Climate

- Taxes are an important factor affecting a state's business climate
 - Overall tax burden is important
 - Tax structure is important
 - Taxes directly affecting businesses are important (e.g., corporate income tax, property tax, sales tax, unemployment insurance taxes)
 - Taxes affecting business employees are important (e.g., individual income taxes, property taxes)



Governor Walker's Tax Reform Initiatives

Highlights of Reforms Implemented in 2011 and 2013

- **Income tax reform initiative**
 - Rate reductions, focused on middle class rate cuts
 - Increased deductions for health care, child care and education costs
 - Tax simplification
- **Business tax incentives**
 - Manufacturing and agriculture tax credit
 - Investment incentives
- **Total tax reduction of \$1.4 billion in 2011 and 2013**







Income Tax Reform Initiative

Broad-Based Rate Reduction

- Significant tax rate reductions were included in 2013 budget bill
 - Taxes are reduced by \$650 million
 - Rates are reduced for all brackets
 - Largest reductions are for middle class taxpayers
 - Provides broad-based tax relief

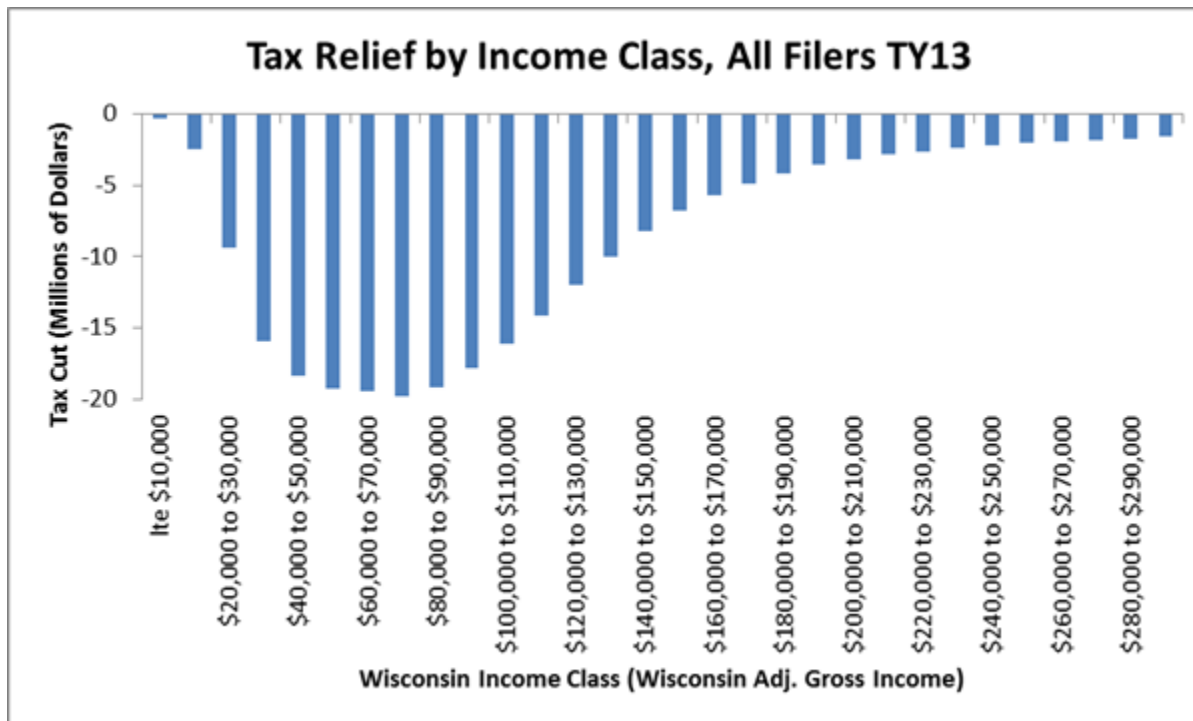
Governor Walker's Tax Reform Initiative

Reduces Income Tax Rates

Tax Rate Reduction					
Rate	Bottom Rate	2 nd Rate	3 rd Rate	4 th Rate	Top Rate
Before	4.60%	6.15%	6.50%	6.75%	7.75%
					
After	4.40%	5.84%	6.27%	7.65%	

Overall Income Tax Reduction From Rate Cuts: \$650 million
 (Amount of reduction in budget bill for Tax Years 2013 and 2014)

Income Tax Payments Are Reduced for Taxpayers at All Income Levels Middle Class Taxpayers See the Greatest Relief



Taxpayers Will See Significant Savings From Rate Cuts

- Typical family will see income tax savings of \$345 for two years of 2013-15 budget cycle
 - Savings of \$173 per year for Tax Years 2013 and 2014
 - Family with two adults working, two children and median family of four income of \$80,607
 - Tax liability under current law would be \$3,510 per year



Income Tax Reform Initiative

Increased Deductions

- State tax deduction for Health Savings Accounts (passed in 2011)
 - Average tax savings of \$423 over two years
- Health insurance premium payments for employees become 100% deductible (included in 2013 budget bill)
 - Average tax savings of \$246 over two years



Income Tax Reform Initiative

Increased Deductions

- Increased child care deduction (included in 2013 budget bill)
 - Average tax savings of \$300 over two years
- K-12 private school tuition deduction (included in 2013 budget bill)
 - Tuition payments are deductible, up to \$4,000 per child through grade 8 and \$10,000 per child for grades 9-12
 - Typical tax savings of up to \$250 per child through grade 8 and \$627 per child for grades 9-12 for Tax Year 2014



Income Tax Reform Initiative

Tax Simplification

- Tax code is reformed and simplified:
 - Federalization efforts are continued
 - Federal depreciation and Section 179 expensing provisions are adopted
 - 15 additional Internal Revenue Code provisions are adopted
 - 17 credits and deductions are eliminated
 - Two brackets are combined



Business Tax Incentives

- Longstanding business tax incentives include:
 - Manufacturing machinery and equipment property tax and sales tax exemptions
 - Research and development tax credit
 - Angel investment tax credit
- Newly-adopted business tax incentives in 2011 include:
 - Manufacturing and agriculture tax credit
 - Investment incentives (capital gains exemption for investments in Wisconsin businesses)

Manufacturing and Agriculture Tax Credit

- Credit applies against taxes on income from manufacturing and agriculture activity in Wisconsin
- Phased in over four years:
 - Tax year 2013 = 1.875%
 - Tax year 2014 = 3.750%
 - Tax year 2015 = 5.526%
 - Tax year 2016 and beyond = 7.500%
- Offsets top tax rates of 7.90% (corporate income tax) and 7.65% (individual income tax)

Rationale for Credit

- Manufacturing and agriculture have historically been the twin drivers of Wisconsin's economy
- Multiplier effect: When manufacturing and agriculture thrive, all other sectors of the economy will thrive:
 - Construction, real estate, retail, tourism, hospitality, professional services, financial services and other sectors will all benefit from multiplier effect



Benefits of Credit

- Part of a broad-based, sustained effort to reduce taxes and improve Wisconsin's tax structure
- Enables us to tout our tax structure as an advantage for manufacturing and agriculture businesses, along with our other advantages



How Credit Works

- Businesses apportion income to Wisconsin based on the percentage of their sales in Wisconsin
- The percentage of their income from Wisconsin manufacturing and agriculture activities is calculated
- The credit applies to the taxes on their Wisconsin manufacturing and agriculture income

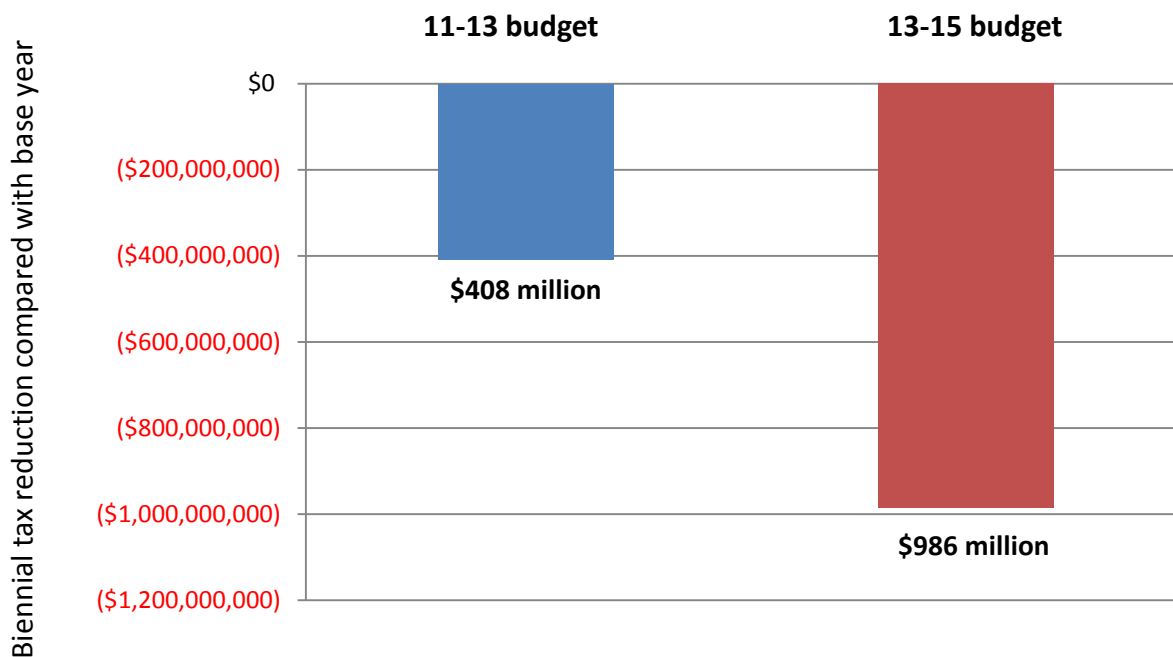
Total Tax Cuts in 2013-15 Budget Bill

Tax Law Change	FY14 Tax Reduction	FY15 Tax Reduction
Individual income tax – Rate cuts	\$330 million	\$322 million
Manufacturing and agriculture credit – 2011 Act 32 phase-in	32	71
Health insurance premium deduction – 2007 Act 20 phase-in	54	60
Child care deduction – 2007 Act 20 phase-in	3	6
K-12 private school tuition deduction	-	30
Other changes	25	53
Total	\$444 million	\$542 million

Total tax cuts: \$986 million in 2013-15 budget bill

Reversing Direction on State Taxes

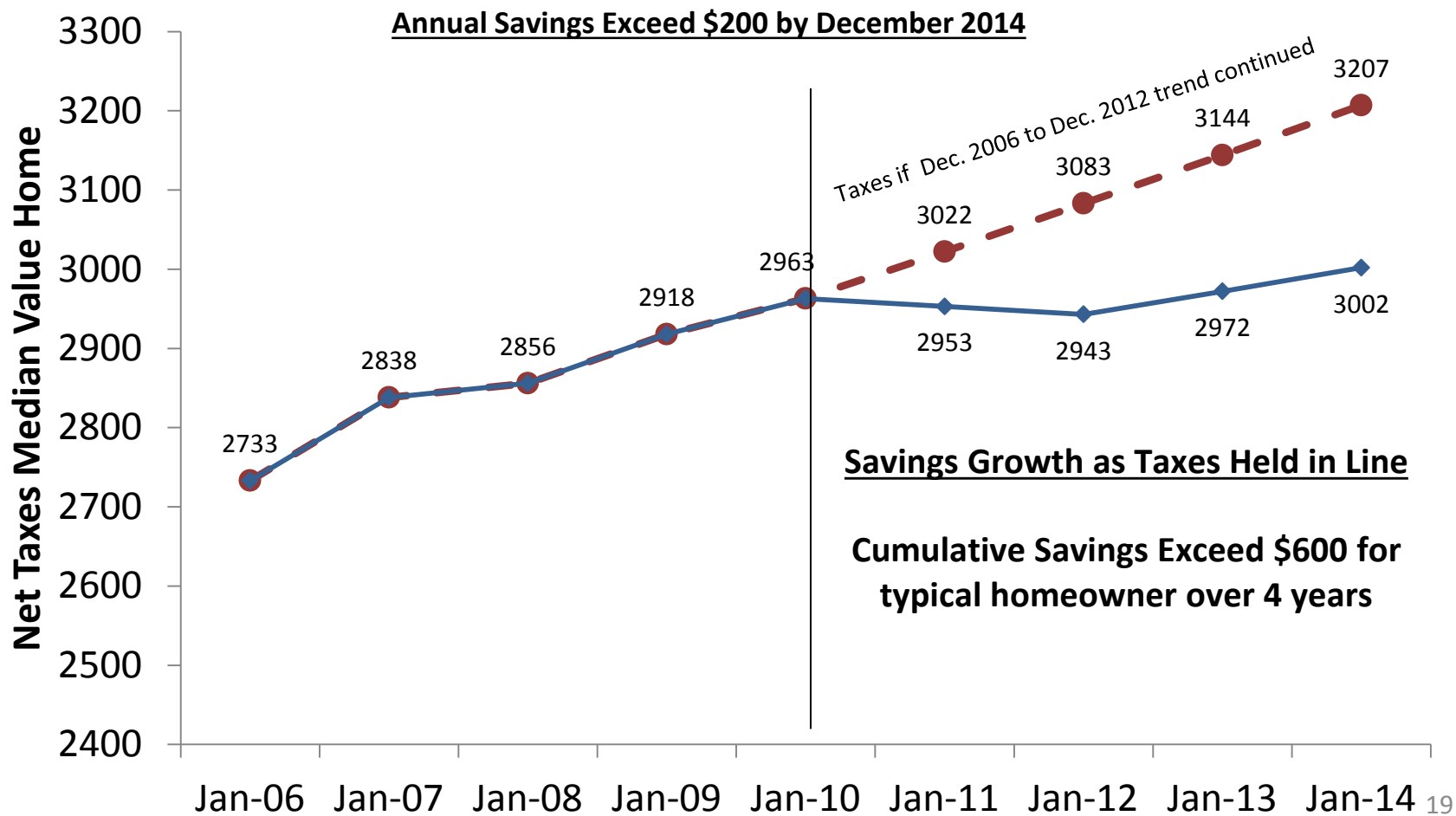
State taxes have been cut in the most recent two budgets



Total tax cuts: \$1.4 billion in two budgets

Holding the Line on Property Taxes

Property taxes have been controlled in the most recent two budgets





Tax Relief is an Ongoing Effort

- The tax relief in the 2013-15 budget is possible due to spending control and sound fiscal management
- Tax reduction will continue in the future as the Wisconsin economy expands and more jobs are created