



**WISCONSIN  
BUDGET  
PROJECT**

**An Initiative of the Wisconsin Council on Children and Families**

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**New Year Brings Many State Tax Cuts in Wisconsin  
Tax Deductions and Credits Add to State Deficit**

The outset of a new year often brings state or federal policy changes. In 2011 the state changes include a number of targeted tax breaks that take effect in January.

A new report by the Wisconsin Budget Project identifies eight new or expanded tax deductions and credits that take effect in January and will save taxpayers about \$210 million over the next two years.

One example is a new income tax deduction for child care expenses that begins in tax year 2011 and is expected to save taxpayers \$16 million over the next two years. The new child care deduction allows individuals to deduct from their income a portion of child and dependent care expenses up to \$750, or \$1,500 for couples. The new deduction is gradually being phased in, and it will grow to \$3,000 per year (\$6,000 for couples) in tax year 2014 and thereafter.

The biggest savings for taxpayers, an estimated \$78 million over the next two years, will come from an increase in the income tax deduction for health insurance premiums paid by employees whose employer pays a portion of those insurance costs. This deduction is 25 percent of a taxpayer's premium expenses in 2011. It is gradually being increased from 10 percent in tax year 2009 to 100 percent in 2013 and thereafter.

A new tax break for capital gains income that begins in 2011 is expected to save \$25 million per year for large investors who reinvest their profits in qualified Wisconsin enterprises. A taxpayer may subtract up to \$10 million in capital gains from their income for individual income tax purposes if the money is reinvested in a qualified new business venture.

The tax changes are diverse, but the Budget Project analysis indicates that they share one thing in common. They were all phased-in or delayed in such a way that most of the cost to the state treasury would not come due until the 2011-13 budget, thereby adding to the structural deficit that needs to be filled this year by state lawmakers.

Using figures from the Legislative Fiscal Bureau, the Budget Project calculated that the cost of the tax changes that take effect in January totals about \$210 million over the 2011-13 biennium. Additional tax reductions with different effective dates bring the savings to taxpayers and the cost to the state treasury to more than \$320 million over the next two fiscal years.

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Because states are constitutionally required to balance their budgets, delayed tax cuts eventually require reductions in state spending or increases in other taxes. The 2011-12 Wisconsin Legislature will have to decide how to pay for the tax deductions and credits that are being phased in over the next two years.

“All of the tax and spending choices have tradeoffs, such as potentially reducing aid to local governments for property tax relief” said Jon Peacock, director of the Wisconsin Budget Project. “Although we might like many of the new tax breaks taking effect in 2011, before those were enacted the public deserved an opportunity to know how the revenue loss would affect other taxes or would change spending in areas such as education and property tax relief.”

Peacock noted that a common refrain from nearly all candidates for public office in 2010 was a promise to employ more responsible budget practices that do not add to the deficit in the next budget and defer the hard choices to future lawmakers.

“If politicians truly meant their promises about fiscal discipline, they will end the practice of approving delayed spending and phased-in tax cuts that add to the state deficit and postpone the day of reckoning,” Peacock said.

The report, “New Year Brings at Least \$210 Million in New Tax Cuts,” is available online at [http://www.wisconsinbudgetproject.org/tax\\_cuts\\_12-2010.pdf](http://www.wisconsinbudgetproject.org/tax_cuts_12-2010.pdf)

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