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New Year Brings Many State Tax Cuts in Wisconsin

Previously Passed Deductions and Credits Will Reduce 2013-15 Revenue by $262 Million

Among the state policy changes taking effect as the new year begins are a number of phased-in tax cuts passed in earlier budgets.

A new report by the Wisconsin Budget Project--a research group the studies the impact of state and federal tax and spending policies--identifies nine new or expanded tax deductions and credits that affect Wisconsin taxpayers in 2013. Those changes will reduce tax revenue by an additional $262 million in the 2013-15 biennial budget.

One example is a new income tax cut for businesses based on income derived from manufacturing or agricultural property. That cut is phased in over four years, starting in 2013. When the credit is fully phased in, businesses will pay an estimated $129 million less in income tax each year, and it will almost completely exempt many manufacturers from Wisconsin income tax. The cumulative ten-year cost of the credit is about $874 million.

The biggest savings for taxpayers, an estimated $114 million over the next two years, will come from an increase in the income tax deduction for health insurance premiums paid by workers who share in the cost of employer sponsored health insurance. This deduction increases in the current tax year to 100 percent of a taxpayer's premium expenses, compared to 45 percent of those expenses in 2012. Income tax filers can deduct these expenses from their income regardless of whether they itemize or claim the standard deduction.

The tax changes are diverse, but the Budget Project analysis indicates that they share one thing in common: They were phased-in or delayed in such a way that much of the cost to the state treasury would not come due until the 2013-15 budget, thereby necessitating spending cuts or offsetting tax increases in the next budget.

"Given the big price tag on tax cuts already in the works, the Legislature should think twice about implementing new tax breaks," said research analyst Tamarine Cornelius. "Phased-in or delayed tax cuts are easy to put in place, but they reduce resources available to invest in our schools, roads, and communities when the full price tag comes due."

Using figures from the Department of Revenue, the Budget Project calculated that the incremental cost of the increased tax cuts taking effect in January will total about $528 million over a three-year period from fiscal year 2013 through fiscal year 2015 (measured relative to FY 2012 revenue).

The new Budget Project report is available at http://bit.ly/VxxAMf.

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