Taxes and Revenue
In the Governor’s Proposed 2013-15 Budget

Governor Walker’s proposed budget includes a significant income tax cut and new resources for tax enforcement. For many people, property taxes will stay level or go down due to limitations on the ability of local governments to raise money through the property tax. The budget proposes several different ways of increasing revenue available for highways at the expense of other important programs, such as education and health care. Because of the combination of tax cuts and cost shifts between funds, the state’s structural deficit is projected to increase in coming years.

A “Middle Class” Tax Cut that Largely Goes to the Wealthy
The Governor is recommending an income tax cut that would decrease revenue by $173 million in 2014 and $171 million in 2015. His proposal would decrease individual income tax rates for the first three income tax brackets, reducing the current 4.6%, 6.15%, and 6.5% rates to 4.5%, 5.94%, and 6.36%, respectively.

In his budget address, Governor Walker said that the income tax cut would make Wisconsin more competitive for middle-income taxpayers. But the benefit of the income tax would largely go to the highest earners, as shown in the chart.

Taxpayers earning more than $100,000 per year would get nearly half the benefit of the income tax cut. Taxpayers earning more than $250,000 would get a tax cut of about $300, while a typical Wisconsin family earning about $50,000 would get a tax cut of about $60 over the course of the year.

The budget recommended by the Governor maintains the tax increases on low- and moderate-income families that were included in the last budget, which made a deep cut to the Earned Income Tax Credit and a more gradual cut to the Homestead Credit.

Other Tax Changes
The Governor’s budget proposes changes to several tax credits, including:

- Providing an additional $75 million in available credits to promote economic development. This change would reduce state tax revenue by $10 million over the two-year budget period.
- Lifting the cap on the amount of credits available under the angel investment tax credit program. This move would reduce tax revenue by $5 million, starting in 2015.
- Sunsetting a tax credit for electronic medical records, which increases tax revenue by $5 million in 2015.
**Additional Tax Enforcement and Stepped-Up Scrutiny for Low-Income Families**

The Governor’s budget proposes boosting tax enforcement by increasing Department of Revenue staff by 61 full-time equivalent (FTE) positions. The tax returns of low- and moderate-income families who claim the Earned Income Tax Credit or the Homestead Credit would receive additional scrutiny under the budget proposal. Enhanced enforcement actions are expected to cost $13 million over the two-year budget period, and increase tax revenue by $89 million, for a net increase of $76 million in revenue.

**Limited Resources for Local Governments**

This budget continues strict controls on the amount of property taxes that local governments are able to raise. Under this proposal, counties, municipalities, and technical colleges must limit any increase in their levy to the growth in property values due to new construction.

State support for local governments would be frozen for the next two years under the Governor’s budget proposal. State aid to counties and municipalities has fallen by 32% over the last 10 years, when adjusted for inflation.

The Governor is proposing increasing the amount of state aid for public K-12 education, but his budget does not increase the cap on school district budgets. Many school districts will need to cut property taxes to stay under the revenue limits.

The Governor’s budget includes an additional $30 million in property tax credits over two years that will reduce taxes paid by property owners.

**More Resources for Highways, at the Expense of Education and Healthcare**

Governor Walker has proposed three different actions that would reduce revenue or increases costs for the General Fund while benefitting the Transportation Fund. Spending from the state’s General Fund supports Wisconsin’s public school system, access to health care for working-class people, higher education, the prison system, and many other purposes. Money from the state’s Transportation Fund largely supports highways.

The budget proposal would:

- Transfer $23 million from the General Fund to the Transportation Fund.
- Shift the funding source for state support for transit from the Transportation Fund to the General Fund beginning in 2015. This would increase General Fund costs by $106 million, and reduce Transportation Fund costs by the same amount.
- Speed the reconstruction of the Zoo Highway Interchange in Milwaukee by increasing bonding, with $200 million of the bonding to be repaid by the General Fund. Traditionally, the Transportation Fund has been the source of bonding for highways. The budget proposes allowing the state to sell property, including power plants, with the proceeds going to repay bonds supported by the General Fund.

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