Five Ways the Proposed Income Tax Cut Would Hurt Wisconsin

#1: The tax cut leaves out low-income taxpayers.

More than three-quarters of a million Wisconsin tax filers would not receive any benefit from the tax cut proposed by the Governor, including most people earning $30,000 a year or less.

Low-income Wisconsinites typically pay a higher share of their income in state and local taxes than do those with the highest incomes. Yet low-income taxpayers would receive little or no benefit from the income tax cut.

#2: Rolling back recent tax increases should be a higher priority.

The last state budget included two tax increases for low-income people:

- A cut in the state's Earned Income Tax Credit, which resulted in higher taxes for modest-income working families with children; and
- A cut to the Homestead Credit, which helps make sure that seniors on fixed incomes and other people of modest means aren't taxed out of their homes.

Before approving new tax cuts, the first priority of state policymakers should be to revisit recent tax increases, especially because those tax increases hit working families and seniors the hardest.

#3: The so-called "middle class" tax cut winds up mostly in the pockets of the most well-off.

Some policymakers have described this tax cut as being aimed at the middle class, but most of the benefit of the proposed cut goes to the highest earners. Half the benefit of the tax cut would go to the top 14% of tax filers.

#4: The tax cut would be likely to hurt, rather than help, the state economy.

Proponents of the tax cut say that it will boost the Wisconsin economy, but recent history in other states shows the opposite is more likely to be true. States that cut personal income taxes in the 1990s and 2000s lagged the rest of the country in economic growth. Cutting taxes is no substitute for public investments in high-quality schools, roads, and communities that attract business.

#5: It may create a large hole in the next budget.

The estimated cost of the tax cut is about $170 million a year. To put that amount in context, that is more than the state spends on the entire Wisconsin Technical College System per year.

In a March 28 paper, the Legislative Fiscal Bureau (LFB) pointed out the proposed budget bill would put the state in a substantial hole at the start of the 2015-17 biennium. The good news is that the LFB recently raised its revenue projections, and that increase could be used to avoid the budget hole in the following biennium. The bad news is that much of that revenue growth is one-time money, so great care needs to be taken that it isn't used for ongoing, unsustainable tax cuts. Using a short-term surplus for permanent tax cuts is a recipe for big fiscal problems in future years.

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