



Missing Out: Recent Tax Cuts Deliver Little to People Who Earn the Least

June 3, 2014

Three major tax cut packages passed by the Wisconsin legislature in the last year have delivered relatively little benefit to the lowest earners, who are struggling to make ends meet. In dollar amounts, the largest tax cuts went to the Wisconsin taxpayers who earned the most.

If state lawmakers want to cut taxes for Wisconsin taxpayers who don't earn very much, the best way to do that is to strengthen tax credits that keep income and property taxes affordable for low-income individuals and families. For a fraction of the cost of the 2013 and 2014 tax cuts, lawmakers could restore recent reductions in the Earned Income Tax Credit and Homestead Credit that weakened those two important breaks for lower-income people.

Three Packages Cut Income and Property Taxes

In 2013 and 2014, state lawmakers passed three large tax cuts:

1) A June 2013 reduction in income tax rates

This income tax cut, included in the state budget, will reduce state tax revenue by an estimated \$327.8 million in fiscal year 2014 and \$320.1 million in 2015. (The legislature made other, less significant changes to tax law in the budget that are not included in this analysis.)

2) An October 2013 property tax cut

State lawmakers prompted school districts to cut property taxes by increasing direct state aid to the districts by \$40 million in fiscal year 2014 and \$60 million in 2015, without raising the overall limit on what school districts are allowed to spend.

3) A March 2014 combined income tax and property tax cut package

The legislature cut property taxes again by increasing aid to technical college districts by \$406 million in fiscal year 2015 and setting a limit on the amount the districts are allowed to spend.

The legislature also cut income taxes by reducing the rate for the bottom income bracket to 4.0% from 4.4%, beginning in tax year 2014. This reduced revenue by \$2.1 million in fiscal year 2014 and \$96.5 million in 2015.

Income Tax Rate Reductions				
INCOME TAX BRACKETS		ORIGINAL RATES	RATES AFTER 2013 RATE REDUCTION	RATES AFTER 2014 RATE REDUCTION
SINGLE FILERS	MARRIED-JOINT FILERS			
Less than \$10,900	Less than \$14,500	4.60%	4.40%	4.00%
\$10,900 to \$21,800	\$14,500 to \$29,100	6.15%	5.84%	5.84%
\$21,800 to \$163,700	\$29,100 to \$109,100	6.50%	6.27%	6.27%
\$163,700 to \$240,200	\$109,100 to \$320,300	6.75%	6.27%	6.27%
\$240,200 and over	\$320,300 and over	7.75%	7.65%	7.65%

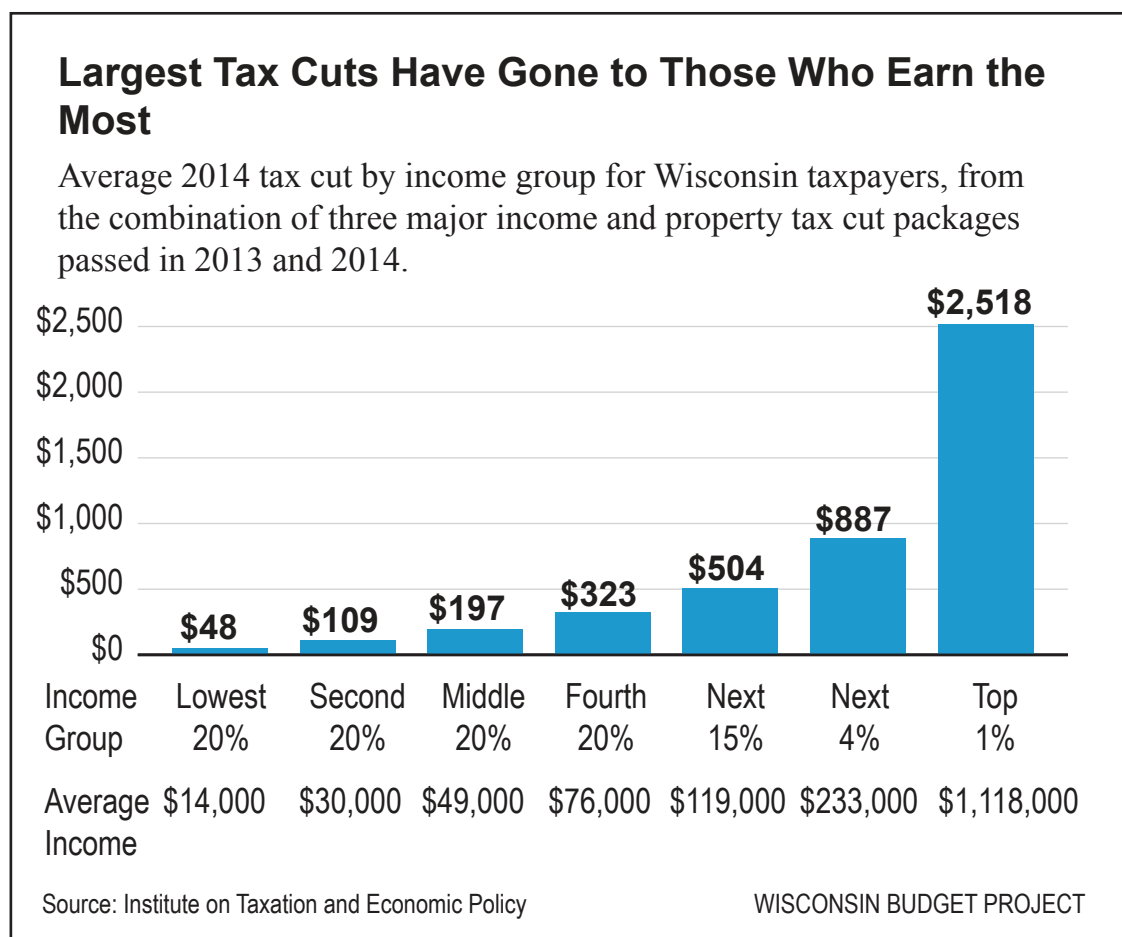
Not included in this analysis are other components of the March 2014 package, including a cut in the Alternative Minimum Tax, a change that would give approximately 30,000 people an average tax cut of about \$1,000 each in 2015.

Lowest Earners Get Little Benefit from Tax Cuts

There are several ways to measure the size of the tax cuts for different income groups. By any measure, the lowest earners received the smallest or nearly the smallest tax cut.

In dollar terms, the value of the tax cuts climbs with income level. The three tax cuts combined give the bottom 20% of income earners in Wisconsin – those earning an average of \$14,000 a year – an average tax break of \$48 in 2014. The taxpayers in the next income group, with an average income of \$30,000, fared only a little better, with an average tax cut of \$109.

In contrast, the top 1% of earners – who have an average income of \$1.1 million – received an average tax cut of \$2,518, 53 times higher than the tax cut received by the lowest income group. Put another way, the top income group will save more on taxes each week than the lowest income group will save over the course of the entire year.



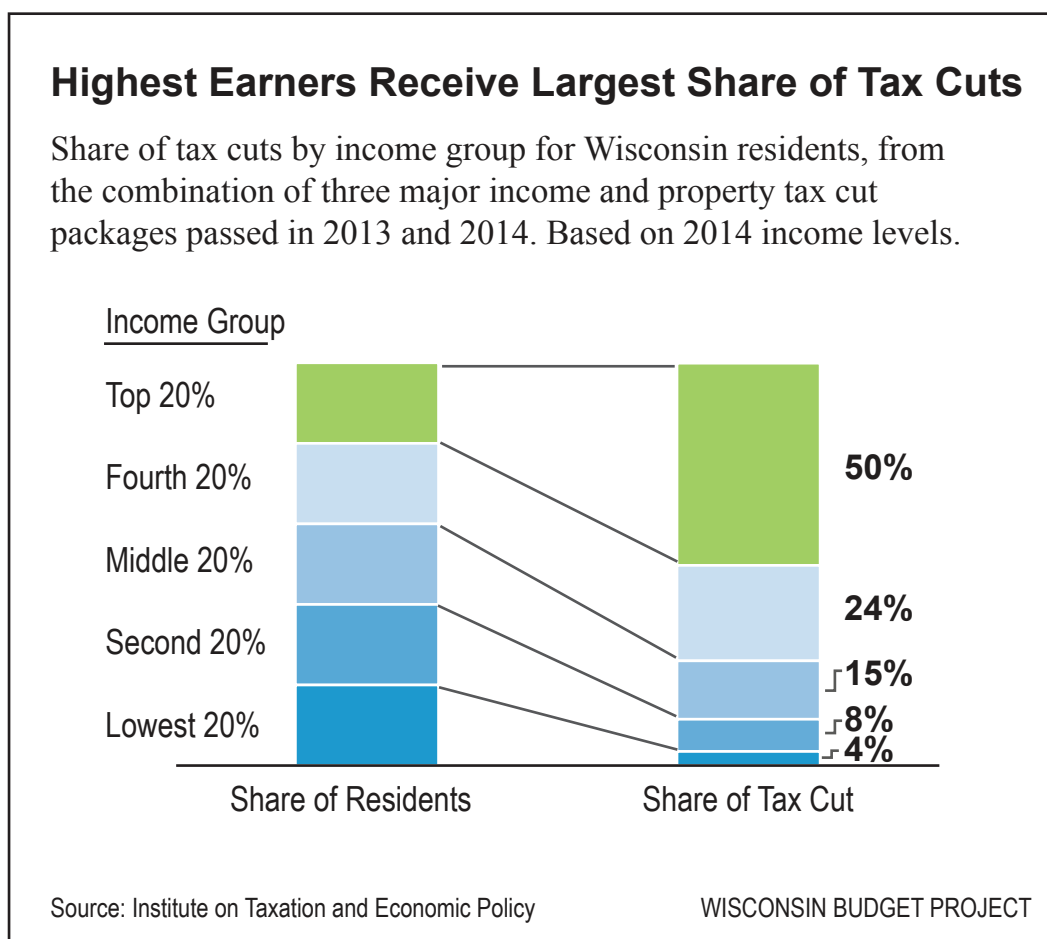
Wisconsin residents with the highest incomes received the largest overall share of the tax cut benefit, as well.

In 2014, the top 20% of earners – a group with an average income of \$192,000 – will receive half of the benefit of the tax cuts. In other words, the top 20% of earners get the same share of the tax cuts as the rest of the 80% of earners combined.

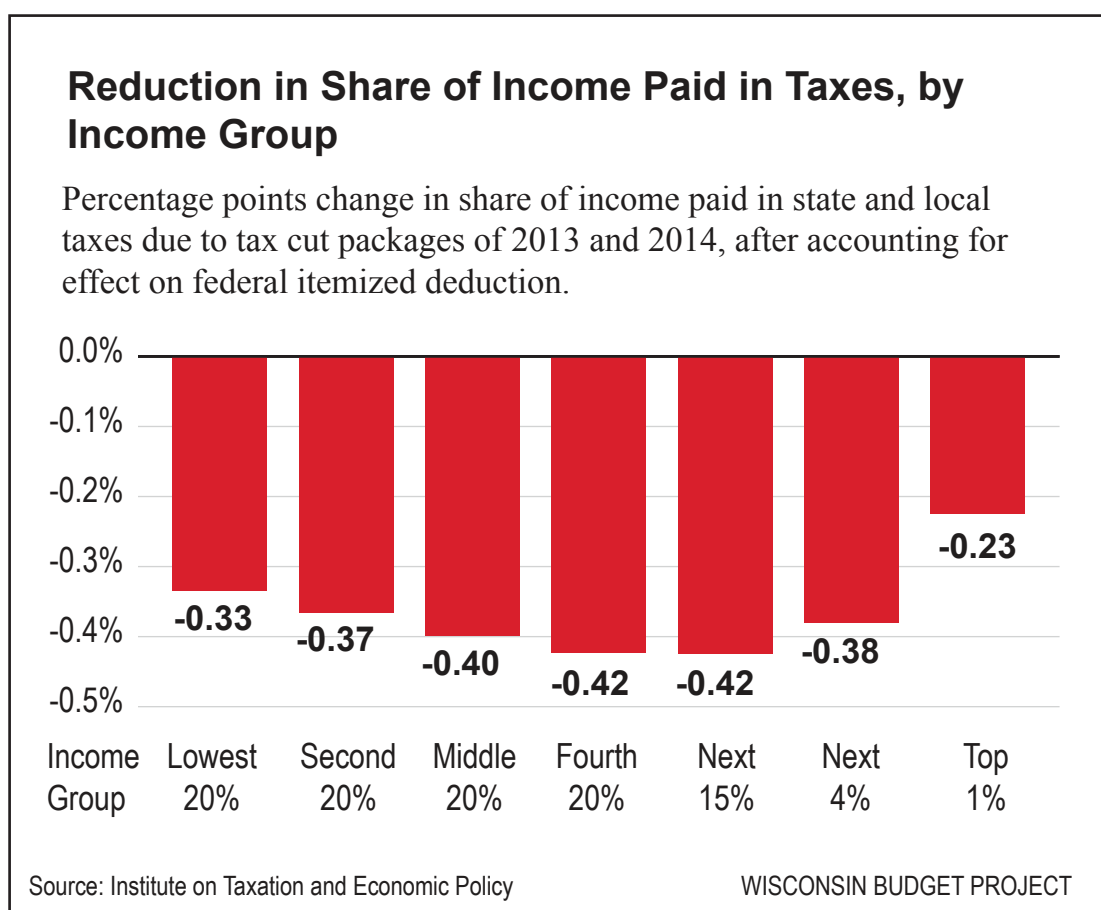
Taxpayers with low incomes received very small shares of the tax cuts. The 20% of taxpayers with the lowest incomes received just 4% of the total benefit.

Taxpayers in the next highest income group didn't benefit much either: they received just 8% of the total, despite making up 20% of taxpayers. Together, the bottom 40% of taxpayers will get 12% of the benefit of the tax cuts.

The gap between the benefit for high earners and for low earners is even more pronounced at the very highest income level. The top 1% of earners in Wisconsin will get 9% of the total benefit, and had their 2014 taxes cut by \$80 million. Their share of the tax cut is more than double that of the bottom 20%, even though the bottom group includes 20 times as many taxpayers.



The tax cuts reduce the share of income that Wisconsin taxpayers devote to state and local taxes. The bottom 20% of earners will pay 0.33 percentage points less, a smaller reduction than all but one other income group.



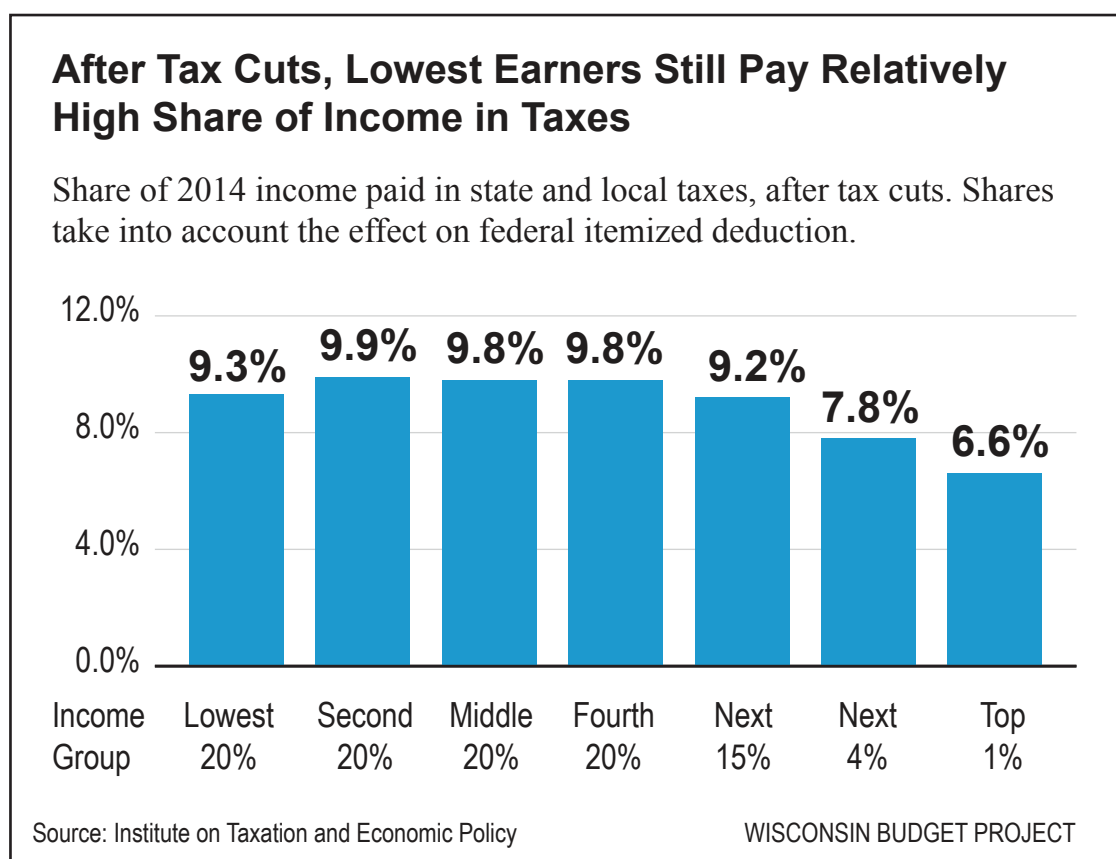
With each higher income group, the size of the tax cut as a share of income paid in taxes increased, except for earners with the very highest incomes.

Earners in the top 1% received the smallest tax cut when measured as a share of their income paid in taxes; the next 4% – the second-highest-earning group – also received a smaller tax cut measured this way than some other income groups.

It’s especially important that tax cuts deliver meaningful benefits to people with the lowest incomes, because they pay a larger share of their income in state and local taxes than people in some other income groups.

Taxpayers in the bottom 20% of earners will spend on average 9.3% of their income on state and local taxes in 2014, taking the tax cuts into account. That’s more than taxpayers with the highest incomes pay as a share of their income. Those who pay the highest share of their income in taxes – the group of earners just above the bottom 20% – have an average income of \$30,000 and spend 9.9% on average of their income on taxes.

The tax cuts of 2013 and 2014 slightly reduced the advantage that the top 4% and the top 1% of earners have in the tax system, by giving them relatively small reductions in the share of their income paid in taxes. But those high earners still pay a smaller share of their income in taxes than other income groups. After taking the tax cuts into account, the top 1% of taxpayers in Wisconsin pay an average of 6.6% of their income in state and local taxes, a significantly smaller share than low- and middle-income taxpayers.



The broad-based tax cuts the legislature passed don’t do much to help families that earn the least. To remedy this, lawmakers should strengthen the Earned Income Tax Credit and the Homestead Credit, which keep taxes low for people who have low incomes. The legislature cut both credits in 2011, resulting in low-income individuals and families paying \$170 million more in taxes over the last four years.

Notes

The Institute for Taxation and Economic Policy provided information on tax cut distribution and share of income paid in taxes. Tax cut dollar amounts are averages for an income group. Taxpayer units are based on tax filers. The share of tax cuts by income group is for Wisconsin residents only, although a small share of Wisconsin taxes are paid by non-residents. The current share of income paid in taxes includes the federal deduction offset, which reduces taxes more for high-income groups than for low-income groups. Income tax brackets are shown at 2014 levels.