



A Summary of Tax and Revenue Changes in the Wisconsin Budget

July 14, 2015

The Wisconsin budget that has been signed into law includes more than \$300 million in new tax cuts over the next two years. To pay for these tax cuts and close the deficit caused by past tax cuts, lawmakers have proposed reducing or providing only a very small increase in the support the state provides to critically important institutions, such as the University of Wisconsin system and public schools.

MORE TAX CUTS

In this budget, lawmakers continued their focus on cutting taxes. Major tax cuts included in the budget proposal include:

- An increase of \$211 million in the school levy tax credit in the second year of the two-year budget. This amount is paid to municipalities who must pass the money through to property owners in the form of lower property taxes.

About half the increase in the school levy tax credit will go towards lowering property taxes for Wisconsin residents on their primary homes. A large part of the remainder will reduce property taxes for owners of commercial and industrial property and out-of-state owners of vacation homes.

The higher the value of the property, the greater the school levy tax credit is for property owners within a school district. The result is that property owners with high incomes typically receive larger credits than owners with lower incomes, and will receive outsized benefits from the proposed increase in the school levy credit.

- An increase of \$108 million in the second year of the budget in the amount of general support the state provides to school districts. The budget does not allow districts to increase their budgets to use the additional resources in the classroom, instead requiring districts to use that money to reduce property taxes.
- Virtually eliminating the state's Alternative Minimum Tax, which is aimed at making sure that people with high incomes pay a minimum amount of income tax. The change means that more than 90% of taxpayers currently subject to the AMT will not have to pay it, and the others will pay considerably less than they do now.

This provision will give a tax break to taxpayers with high incomes: Nearly 1 out of 3 taxpayers with incomes over \$200,000 pay the AMT, compared to less than 1 out of 400 for taxpayers with incomes under \$100,000.

The virtual elimination of the AMT will decrease tax collections by an estimated \$6 million in fiscal year 2017, increasing to \$25 million in 2018 and \$30 million in 2019.

- An income tax cut for married couples. The budget increases the amount that married couples are allowed to deduct from their income when calculating the amount of state incomes taxes owed. Nearly all the value of the tax cut will go to married couples earning under \$100,000 a year. This measure will cut taxes for married couples by about \$21 million a year starting next year.

To partly pay for the tax cut for married couples and other tax cuts, lawmakers have temporarily slowed down the phase-in of an income tax cut for manufacturers and agricultural producers. The slowdown applies only to fiscal year 2016; in 2017, the phased-in tax cut for manufacturers will revert to its original schedule. When the tax cut is fully phased in, manufacturers will pay little or nothing in state income taxes.

Paying for a permanent tax cuts with a temporary slowdown in the increase of another tax cut can lead to long-term reductions in tax revenue needed to support Wisconsin's schools, communities, and workers.

LIMITED RESOURCES FOR LOCAL GOVERNMENTS

The budget continues strict controls on the amount of property taxes that local governments are able to raise. Counties, municipalities, and technical colleges may not increase the amount of money they raise from the property tax except to account for the growth in property values due to new construction. The budget includes no increase in the revenue caps for school districts, meaning that school districts will not be able to increase the amount of money they take in through the combination of general state aid and property taxes.

DELAYS AHEAD FOR HIGHWAY PROJECTS

The state does not have nearly enough money in the state's transportation account to pay for highway expansion and other transportation projects planned for the next two years. To address the shortfall, lawmakers have increased the amount of money the state borrows to build and maintain roads and have also delayed planned highway projects.

Most state spending on highways and other transportation comes from the state's Transportation Fund. The state deposits revenues from the gas tax and other transportation-related fees into the Transportation Fund. Wisconsin's gas tax was last increased in 2006, and the effects of inflation have eaten away at the value of the tax considerably since then, reducing resources available for transportation projects.

Lawmakers voted to borrow up \$850 million for roads in the budget. A portion of that borrowing is contingent on later approval by the legislature's Joint Finance Committee. Repayment costs for up to \$307 million of the borrowing will come from the General Fund rather than the Transportation Fund. The General Fund is the state's main account for spending on education, health care, and communities;

repaying transportation bonds from the General Fund reduces resources available for services not related to highways.

The budget delays \$659 million in planned highway projects. Work on the Zoo Interchange that has already begun will not be delayed, but the budget will postpone other phases of the project. The plan also delays some major highway projects in the rest of the state.

OTHER BUDGET PROVISIONS

The budget limits the ability of some municipalities to determine how to spend revenue raised by a tax on hotel rooms. The budget requires some municipalities to increase the share of hotel tax revenue that is spent directly on tourism activities, rather on municipal services that indirectly benefit tourists, such as keeping the streets clear from snow and making sure roads are in good repair.

The budget does not include any public funding for a new Milwaukee Bucks stadium, as lawmakers were unable to reach an agreement on this item. Lawmakers have said they will introduce separate legislation proposing a public subsidy for the facility.

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