



A Summary of the Governor's Proposed Budget for Taxes and Revenue

February 23, 2017

Governor Walker's budget proposal continues his focus on cutting taxes. His proposal includes more than \$500 million in income, property, and sales tax cuts over the two-year period that starts in July 2017. His budget also includes some tax increases: most notably, an increase in the amount of property taxes that some individuals with low incomes would pay.

The proposed budget now moves to the budget committee of the legislature, where lawmakers will make changes to the state's tax and spending priorities.

A PROPOSED REDUCTION IN INCOME TAX RATES

Governor Walker has proposed reducing tax rates for the bottom two income brackets. His proposal would change the tax rate for the lowest income bracket from 4.0% to 3.9% and the rate for the second-lowest bracket from 5.84% to 5.74%, starting with tax year 2017. This rate change would cut income taxes for taxpayers with high incomes as well as those with low incomes, because taxpayers with higher incomes would pay the lower rate on part of their income. About 900,000 tax filers who don't earn enough to pay income taxes would not receive a tax cut from this rate reduction.

The Governor's proposal also slightly changes the dollar amounts at which different income tax rates apply, with the effect that some taxpayers could be moved into higher brackets. Taken together, the income tax rate reductions and the changes to the brackets reduce state tax revenue by \$203 million over two years.

EXPANSION OF A TAX CREDIT FOR WORKING PARENTS

The state's Earned Income Tax Credit, which benefits working parents with low incomes, would be expanded by the Governor's budget proposal. He recommends increasing the EITC for parents with one child from 4% to 11% of the federal EITC, starting in tax year 2018. This would boost the maximum state tax credit for families with one child from roughly \$140 to about \$380. Around 129,000 families would have their taxes reduced by this provision. Governor Walker also proposes adding additional funding to reduce the EITC marriage penalty.

Combined, the changes to the EITC would cut taxes for working families with low incomes by \$22 million in the second year of the budget. The Governor would pay for most of that tax cut by redirecting federal

Mostly Tax Cuts, Some Tax Increases in Budget Proposal

Selected tax changes in Governor Walker's 2017-19 budget proposal. Dollar figures are for both years of the budget. Negative figures show tax cuts and positive figures show tax increases.

TAX CHANGE	AMOUNT IN MILLIONS
Income tax	
Cut bottom rates	-\$203.5
Expand EITC*	-\$22.3
Property tax	
Eliminate state forestry tax	-\$180.5
Increase school levy credit*	-\$87.0
Increase K-12 school aids*	-\$72.8
Cut Homestead Credit*	+\$9.7
Sales tax	
Sales tax holiday	-\$22.3

* Goes into effect in the second year of the budget

Source: Analysis of 2017-19 budget bill WISCONSIN BUDGET PROJECT

money used for safety net programs, thereby reducing resources for other services and programs important for families with low incomes. In 2011, Wisconsin lawmakers reduced the state's EITC by about the same amount as the increase that is now being proposed.

PROPERTY TAX CUTS FOR SOME, INCREASES FOR OTHERS

Governor Walker included several property tax cuts in his budget, as well as a property tax increase for some Wisconsin residents with low incomes.

Property tax cuts in the budget include:

- Elimination of the state portion of the property tax, which funds the state's forestry program. Instead, Governor Walker would use general tax money to support the forestry program. This move would reduce state tax revenue by \$180 million over two years.
- An increase of \$87 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 would go towards lowering property taxes for Wisconsin residents on their primary homes. A large part of the remainder would reduce property taxes for owners of commercial and industrial property and out-of-state owners of vacation homes.
- An increase of \$73 million in the second year of the budget in the amount of general support the state provides to school districts. The Governor's budget would 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.

The budget proposal includes several changes to the Homestead Credit, which reduces property taxes for owners and renters with low incomes. The overall effect of the changes to the Homestead Credit would be that individuals with low incomes would pay more in property taxes on average during the next two years compared to what they would otherwise pay if no changes were made to the Homestead Credit.

The Governor recommends continuing property tax controls that limit the ability of school districts and municipalities to increase property taxes.

OTHER CHANGES TO TAXES AND REVENUE

The Governor's budget includes other provisions that would affect taxes and revenue, including:

- Exempting purchases of school supplies, computers, and clothing from the sales tax for one week each August in 2017 and 2018. This move would reduce state tax revenue by \$22 million over two years. Sales tax holidays like the one proposed don't do much to encourage consumers to spend more money, instead just shifting the timing of the purchases.
- Requiring new income or sales tax credits, deductions, or exemptions to automatically sunset after seven years; and
- Making a \$20 million deposit in the state's rainy day fund, to build up a budget cushion that can be used to mitigate the impact of future recessions and the associated harmful budget cuts. Lawmakers last made a contribution to the rainy day fund in 2013.

Governor Walker has not proposed any changes to the gas tax, which has been set at 30.9¢ per gallon since 2006. Since then, inflation has eaten away at the value of this transportation funding source.