WISCONSIN BUDGET PROJECT

June 27, 2017

Missing Out

Recent Tax Cuts Slanted in Favor of those with Highest Incomes

Since 2011, Wisconsin state lawmakers have made it a high priority to cut taxes, particularly personal income and property taxes. The tax cuts they have passed have disproportionately gone to Wisconsin residents with the highest incomes. Middle-class residents received less than the wealthy, and residents with low incomes received the smallest tax cut.

There are several methods to measure the size of tax cuts for various income groups. But regardless of the measure used, highest earners received the largest tax cut on average and the lowest earners received the smallest tax cut. Methods of comparing the size of the tax cut include:

- The share of total tax cut, measured in terms of the revenue loss to the state, directed to each income group. Using this measure, the group of taxpayers in the top 1% received a combined tax cut that was nearly 11 times as big as the combined tax cut received by taxpayers in the bottom 20% — even though there were 20 times as many taxpayers in the group with the lowest income.
- The average tax cut in dollar amounts that taxpayers received in each income group. Measured this way, taxpayers in the top 1% by income received an average tax cut 57 times as large as taxpayers in the bottom 20%.
- The tax cut as measured as a share of the taxpayer's income. Using this measure, the tax cuts received by the top 1% of taxpayers by income were more than twice as large on average as the tax cuts received by taxpayers with the lowest incomes, even after the relative sizes of their incomes was taken into account.

While lawmakers were focused on cutting taxes for those with high incomes, they also passed several tax *increases* aimed at Wisconsin residents with low incomes. In 2011, Wisconsin lawmakers cut the state's Earned Income Tax Credit (EITC), an action that had the effect of increasing the amount of taxes paid by working parents with low and moderate incomes. Also in 2011, lawmakers cut the Homestead Credit, which keeps property taxes low for homeowners and renters with low incomes. Together, those changes resulted in taxpayers with low and moderate incomes paying $263 million more in taxes in the six-year period that started in July 2011, according to the Legislative Fiscal Bureau.

ABOUT THE TAX CUTS

Wisconsin state lawmakers have passed more than 50 tax cuts since 2011, when Governor Walker began his administration and Republicans gained control of both the State Senate and Assembly. Some of those tax cuts have negligible effects, reducing the amount of state revenue by less than $1 million a year. Others of the tax cuts were significant, reducing state revenue by several hundred millions a year.

This analysis includes the combined effect of thirteen personal income, corporate income, and property tax cuts passed between 2011 and 2016. These changes reduced state revenues by an estimated $1.7 billion in tax year 2017. This analysis includes every change to general fund taxes and property taxes that changed the amount of revenue collected by more than $10 million in fiscal year 2017, as estimated by the Legislative Fiscal Bureau and the Institute for Taxation and Economic Policy, with the exception of a 2013 update of the state's revenue code to conform with changes made at the federal level. This analysis does not include tax cuts with smaller effects or the changes to the EITC and the Homestead Credit. The appendix includes a complete listing of the tax cuts included in the analysis, including the amount of each tax cut and the originating legislation.

The figures describing the distribution of the combined tax cuts were provided by the Institute for Taxation and Economic Policy, a non-profit organization that researches federal, state, and local tax issues and provides information on the effects of tax policies. The appendix includes information about ITEP and the methods used to estimate tax cut size and distribution.

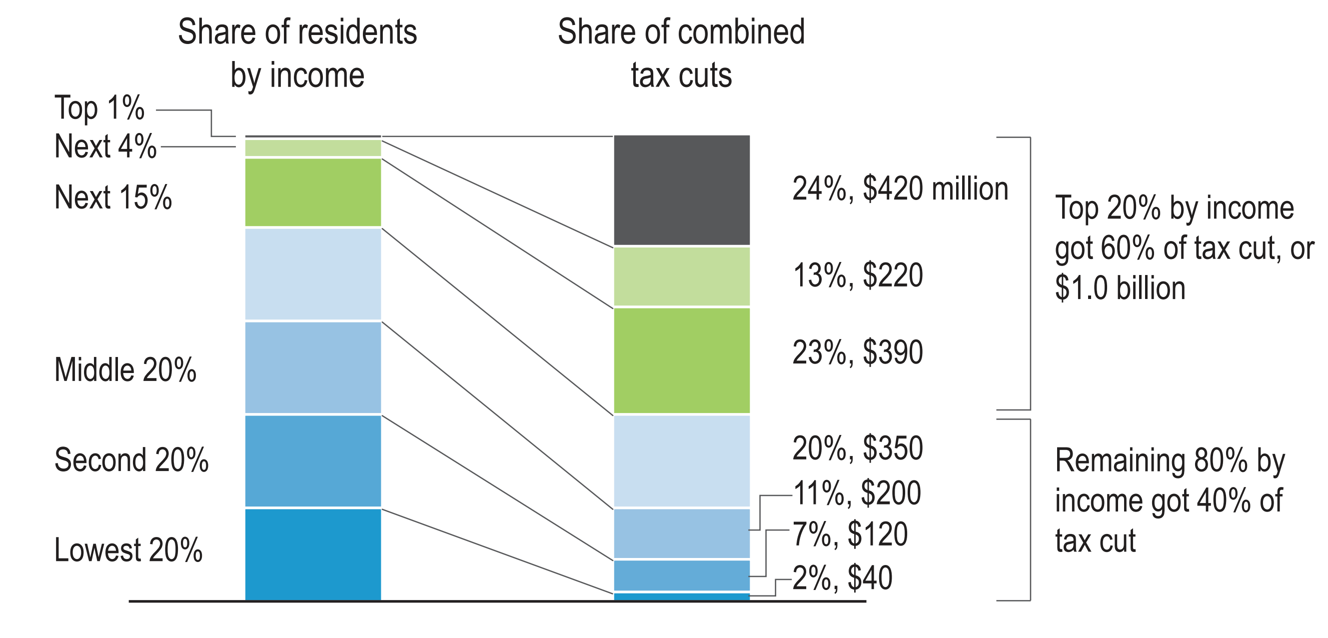
MEASURED AS SHARE OF REVENUE LOSS, HIGHEST EARNERS GOT BIGGEST TAX CUT

Of the $1.7 billion in major tax cuts for 2017 included in this analysis, the lion's share went to Wisconsin residents with the highest incomes. The top 1% of residents by income — a group with an average annual income of $1.7 million — received 24% of the value of the tax cuts, amounting to $420 million in 2017. Taken together, the top 20% of residents by income got 60% of the tax cuts, or $1.0 billion. The remaining 80% of residents split the other 40% of the tax cut.

The large share of the total tax cut received by the group of highest earners stands in contrast to the amount received by the group of Wisconsin residents with the lowest 20% by income: just 2% of the value of the tax cuts, or $40 million of the $1.7 billion. Those residents had an average annual income of $15,000.

Highest Earners Received Largest Share of Tax Cuts

Share of tax cuts by income group for Wisconsin residents, from the combined effect of 13 major income and property tax cuts passed between 2011 and 2016. Figures are for tax year 2017. Dollar amounts are shown in millions.



Source: Institute on Taxation and Economic Policy

WISCONSIN BUDGET PROJECT

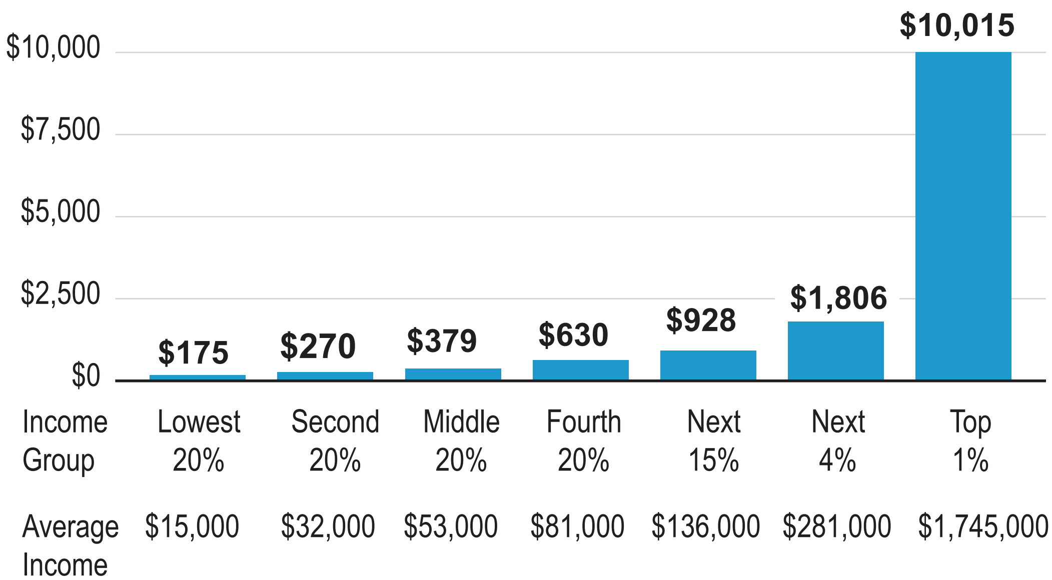
MEASURED IN DOLLAR TERMS, HIGHEST EARNERS GOT BIGGEST TAX CUT

In dollar terms, the value of the tax cuts rose with income level, with each income group receiving a larger average tax cut than the groups with lower incomes.

The top 1% of earners in Wisconsin received an average tax cut of $10,015 in 2017, or about $193 each week. Wisconsin residents in the bottom 20% of earners received an average tax break of $175 in 2017, or about $3 a week. The tax cut received by the top 1% was 57 times higher than the tax cut received by the lowest income group. That means the top income group saved more on taxes each week than the lowest income group saved over the course of the entire year.

Largest Tax Cuts By Far Have Gone to Those Who Earn the Most

Average 2017 tax cut by income group for Wisconsin taxpayers, from selected tax changes enacted during the period 2011 through 2016.



Source: Institute on Taxation and Economic Policy WISCONSIN BUDGET PROJECT

MEASURED IN SHARE OF INCOME, HIGHEST EARNERS GOT BIGGEST TAX CUT

Highest earners got the biggest tax cuts on average, and lowest earners the smallest, when the value of the tax cut is measured as a share of income. This way of comparing the size of tax cuts takes into account relative income size.

Measured as a share of income, Wisconsin residents with the highest incomes received the largest tax cut in 2017. Their tax cut amounted to 0.70% of their income, more than twice as large as the tax cut of 0.33% of income for Wisconsin residents in the bottom 20% of income. The other income groups received tax cuts as a percent of income that were roughly similar to each other, with average tax cuts of between 0.54% and 0.62% of their incomes.

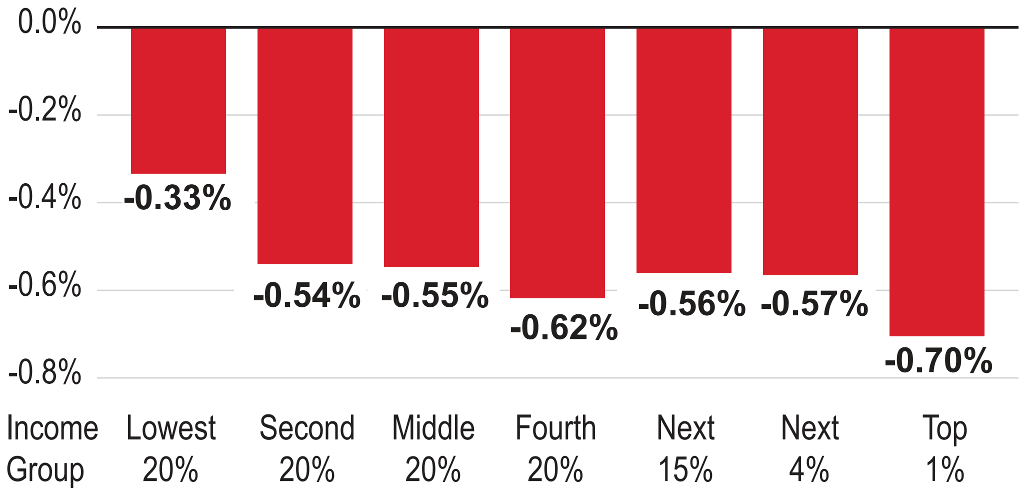
CONCLUSION

By directing the bulk of the tax cuts at taxpayers with high incomes, lawmakers further tilt Wisconsin's tax system in favor of the wealthy.

In Wisconsin, as in most other states, taxpayers with the highest incomes pay a smaller share of their income in state and local taxes on average than taxpayers in other income groups. This attribute was already in place

Top 1% Got Largest Tax Cut as Share of Income

Average tax change as a share of income by income group, for the combined effect of 13 major income and property tax cuts passed between 2011 and 2016. Figures are for tax year 2017, and account for the effect of the federal itemized deduction.



Source: Institute on Taxation and Economic Policy

WISCONSIN BUDGET PROJECT

before 2011, when Governor Walker's administration and recent Republican dominance of the legislature began, and the characteristics of the tax cuts passed since 2011 then has likely reinforced that aspect of Wisconsin's tax system. An examination of the distribution of state and local taxes paid in Wisconsin in 2015, which included some but not all of the tax cuts included in this analysis, determined that taxpayers in the top 1% of income paid 6.2% of their income in state and local taxes on average, considerably less than the 10.2% paid by the middle 20% by income and the 8.9% paid by the bottom 20% by income.

If lawmakers want to ensure that taxpayers with low incomes get a proportionate share of the tax cuts in order to avoid further skewing Wisconsin's tax system, they could strengthen the Earned Income Tax Credit and the Homestead Credit, two state tax credits that lower taxes for people with low incomes.

APPENDIX

Note on the 2017-19 Wisconsin budget: The budget bill introduced by Governor Walker would significantly increase the EITC for some families, but that proposal had not yet been voted on by the Joint Finance Committee at the time of publication. On the other hand, that committee has partially approved changes proposed by the Governor that will substantially cut the Homestead Credit for many households with low incomes.

Tax Cuts Included in Analysis

TAX CUT	2017 AMOUNT IN MILLIONS	LEGISLATION	TYPE OF TAX CUT
Income tax rate cut	$458	2013 Act 20	Personal income
Increase state funding for technical college system with no increase in revenue limits	$406	2013 Act 145	Property
Manufacturing and Agriculture credit	$309	2011 Act 32	Personal and corporate income
Reduce bottom income tax rate	$155	2013 Act 145	Personal income
Increase state funding for K-12 schools without increasing revenue limits	$108	2015 Act 55	Property
Increase School Levy tax credit	$106	2015 Act 55	Property
Increase state funding for K-12 schools without increasing revenue limits	$60	2013 Act 46	Property
Combined reporting, pre-2009 loss sharing	$46	2011 Act 32	Corporate income
Capital gains deferral for Wisconsin investments	$29	2011 Act 32	Personal income
Increase standard deduction for married filers	$22	2015 Act 55	Personal income
Increase Lottery tax credit	$15	2013 Act 20	Property
Private school tuition deduction	$14	2013 Act 20	Personal income
Tax credit for health savings accounts	$12	2011 Act 1	Personal income
Total tax cuts included in analysis	$1,740		

SOURCE: Institute for Taxation and Economic Policy

WISCONSIN BUDGET PROJECT

Income Group Levels for Wisconsin

2017 INCOME GROUP	INCOME RANGE	AVERAGE INCOME
Bottom 20%	Less than $22,000	$15,000
Next 20%	$22,000 to $41,000	$32,000
Middle 20%	$41,000 to $65,000	$53,000
Fourth 20%	$65,000 to $103,000	$81,000
Next 15%	$103,000 to $197,000	$136,000
Next 4%	$197,000 to $513,000	$281,000
Top 1%	More than $513,000	$1,745,000

SOURCE: Institute for Taxation and Economic Policy

WISCONSIN BUDGET PROJECT

The estimates of tax cut size, distribution, and share of income paid in taxes were developed using the Institute for Taxation and Economic Policy Microsimulation Tax Model, a tool for estimating the impact of federal, state, and local taxes by income group. The model uses a large stratified sample of federal tax returns, as well as supplementary data on the non-filing population, to derive estimates that apply to taxpayer populations at the state level. The U.S. Treasury Department, the Congressional Joint Committee on Taxation, the Congressional Budget Office, and several state departments of revenue use similar models.

Tax cut amounts for a particular income group are averages among that group. 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 in taxes includes the federal deduction offset, which reduces taxes more for high-income groups than for low-income groups.

The ITEP website has a more complete description of its tax model.