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Governor Proposes Change to Boost Revenue and Improve Tax Equity

The Governor's budget proposes significant changes in tax policy, including closing income tax loopholes that favor the rich and powerful, and increasing tax credits for low-income households. These changes enable the budget to make large investments that will improve our state's long-term prosperity, while also creating a tax system that provides a more level playing field for Wisconsin businesses and individuals.

Closing tax loopholes to enable important investments

For Wisconsin's economy to thrive, the state needs to invest in the building blocks of shared prosperity, including high-quality early education and schools, affordable higher education, healthy workers, and strong communities. The Governor's budget is able to make significant investments in those areas by narrowing tax loopholes.

Without raising tax rates, the proposed budget generates net increase of about $1 billion in tax revenue and makes the tax code more equitable by making the following income tax changes:

- **Limiting the manufacturing credit** – The budget bill significantly reduces a tax break that allows many manufacturers to pay no state income taxes. This credit has ballooned far beyond original cost estimates and is slanted to favor a small group of multi-millionaires. Companies do not need to create new jobs to be eligible to claim the credit, and even businesses that send jobs overseas, lay off workers, and close factories may receive the credit. Governor Evers has proposed allowing manufacturers to claim this credit only for the first $300,000 of their income, which would reduce the cost of this credit by $487 million over the next two years. The result would be that big manufacturers and wealthy individuals would pay their fair share of taxes that are necessary to fund thriving communities, excellent schools, and modern transportation networks.
- **Taxing income from wealth at the same rate as income from work** – Wisconsin is one of only a few states that gives preferential tax treatment to income earned from investments (also known as capital gains), taxing that income at a lower rate than income earned from working. Governor Evers wants to eliminate this preference for individuals with incomes above $400,000, and couples above $533,000. This limitation would generate an additional $350 million in public revenue during the 2021-23 budget period.
- **Increasing alignment of state and federal tax law** – The Governor proposes conforming state tax law with the federal tax code in a number of the areas where there have been federal changes. The proposed changes to increase alignment are projected to generate $540 million over the next two years.
- **Reducing eligibility for a tax break for private school tuition** – Current law allows people to subtract the tuition they pay to private schools before calculating the amount of income tax they owe. An investigation by the Wisconsin State Journal found that the top 13% of tax filers by income claimed two-thirds of the value of the credit. The Governor recommends limiting this income tax deduction to single and head of household filers with incomes below $100,000

and married joint-filers with incomes below $150,000. Narrowing eligibility for this credit would save $13 million over the next two years.
- **Legalizing and taxing marijuana** – The Governor recommends making it legal for licensed retailers to sell marijuana and imposing excise taxes that would yield an estimated $79.3 million of segregated tax revenue. Sixty percent of these excise tax collections would be set aside to be reinvested in communities, and the remaining amount would be deposited in the state's main fund.

A table on page 4 provides a more complete list of the tax increases in the bill.

Improving tax equity

Tax policy choices at both the state and federal level have contributed to the widening economic chasm between the rich and the rest of Americans. In Wisconsin, for example, state lawmakers have cut a cumulative $13 billion from state taxes since 2012, yet even as they did that they boosted taxes for many low-income families by cutting two tax credits that help those families.

State tax policies that worsen economic inequality also contribute to racial inequality. Wisconsin's tax system contributes to the increasing concentration of income and wealth in a few hands — hands that are most likely to be white, due to a long history of racial discrimination.

Governor Evers' budget takes several approaches to creating a fairer tax system. In addition to closing tax loopholes that give an advantage to the wealthy and powerful who rig the system for their own benefit, the budget bill proposes tax cuts for low- and moderate-income households – particularly those with children or who provide care to family members. Those tax cuts include the following:

- **Expanding the Earned Income Tax Credit,** which goes to working parents with low incomes. Governor Evers' budget increases the amount of the credit for families with one or two children, reducing taxes for these families by $74 million per year. About 200,000 families would get an increase of about $350 per year in their credit, which they could use to make car repairs they need to get to work, pay for school supplies their children need, catch up on utility bills, and pay for other costs important to family functioning.
- **Improving the Homestead Credit,** which delivers targeted property tax relief to low-income households, and helps seniors with low incomes afford to stay in their homes. This is a very important tax credit in terms of equity because it provides well targeted assistance not only to low-income homeowners, but also renters, who are disproportionately people of color. However, regressive policy changes and a frozen formula for calculating the credit have cut this property tax relief in half over the past 10 years. Governor Evers' budget proposal increases the maximum threshold of the credit to $30,000, and allows the parameters used in the calculation of the credit amount to rise with inflation. Those changes will cut taxes for people with low incomes by $69 million over the next two years.
- **Providing assistance to caretakers of family members** by creating a nonrefundable income tax credit for qualified expenses incurred by a family caregiver. The proposed credit is equal to 50 percent of qualified expenses and is capped at $500 per year for most filers. The new tax credit is subject to income limits that phase it out between $75,000 and $85,000 in income for single and head of household filers and between $150,000 and $170,000 in income for married joint-filers. It is projected to reduce taxes by slightly more than $100 million per year for each of the next two years.

Conclusion

The major initiatives in the Governor's budget – such as significantly increasing the state's investments in public schools, early education and health care – cannot be accomplished if lawmakers do not offset them with additional revenue. The Governor proposes generating that revenue and creating a fairer tax system by closing several tax loopholes that primarily benefit the richest Wisconsinites.

A table on the next page contains a more complete list of the revenue generating tax changes in the bill, as well as proposed tax cuts.

The outcome of the debate over the proposed changes in tax policy will largely determine the fate of the investments the Governor proposes making in children, families and communities.

Proposed Tax Changes in the 2021-23 Budget ($s in millions)

Proposed tax increases	**2021-22**	**2022-23**
Federal conformity - Conform WI's tax base with provisions of the federal tax code	$264.2	$275.9
Limit the manufacturing portion of the **Manufacturing & Ag. credit** to apply only to the first $300,000 in qualified production activities income	258.9	228.5
Put income caps on eligibility for the 30% **exclusion for long-term capital gains**	202.1	148.4
Legalize and tax marijuana (the revenue increase is before subtracting a $6.7 million refund to tribes)	0	86.4
Limiting eligibility for the **private school tuition subtraction**	6.4	6.5
Apply the tobacco product tax to **e-cigarettes and vapor products**	12.7	16.6
Tax little cigars and/or brown cigarettes as regular cigarettes	2.3	3.0
Other changes	42.2	44.5
Total revenue enhancements	**$788.7**	**809.9**
Proposed tax cuts		
Caregiver tax credit	100.4	102.5
Earned Income Tax Credit increase	74.3	74.0
Homestead Credit increase & indexing	35.0	33.9
Create a **Work Opportunity Credit**	27.8	24.1
Create a nonrefundable **child and dependent care credit**	9.8	9.8
Medical premium deduction for self-employed individuals	9.5	9.5
Diaper sales tax exemption	7.3	8.8
Low-income housing credit expansion	1.5	7.3
Veteran and surviving spouses exemption for renters	4.9	5.1
Marijuana tax **refunds to tribes**	0	6.7
First-time homebuyer accounts and tax deduction	0	4.1
Other tax cuts	16.4	17.2
Total tax cuts	**286.9**	**303.0**
Total net change in taxes (including refundable tax credits)	**$501.8**	**$506.9**