

Department of Revenue and Tax Reform Initiatives 2017 State Budget Bill

Secretary Rick Chandler
Wisconsin Department of Revenue
Joint Committee on Finance
March 29, 2017

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Topics

- **Policy initiatives:**
 - Income tax
 - Property tax
 - Sales tax
- **Operational initiatives:**
 - Collections
 - Lottery

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Tax Policy Goals

- Reduce Wisconsin's tax burden
 - Put more money in people's pockets
 - Make Wisconsin competitive with other states
- Direct the most relief to areas where it's needed the most
 - Middle class income tax relief is a priority
 - Property tax relief for homeowners is a priority
- Provide broad-based tax relief
- Encourage work

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Tax Reform is an Ongoing Priority

- Income tax rates were reduced significantly in Tax Years 2013 and 2014, with the emphasis on middle class rate cuts
- Property taxes on a median value home have decreased since December of 2010
- Many deductions and credits used by middle class families have been created or increased
 - Health Savings Account deduction
 - Health insurance premium deduction
 - Married filer standard deduction
 - Child care deduction
 - Private school tuition deduction
 - College tuition deduction

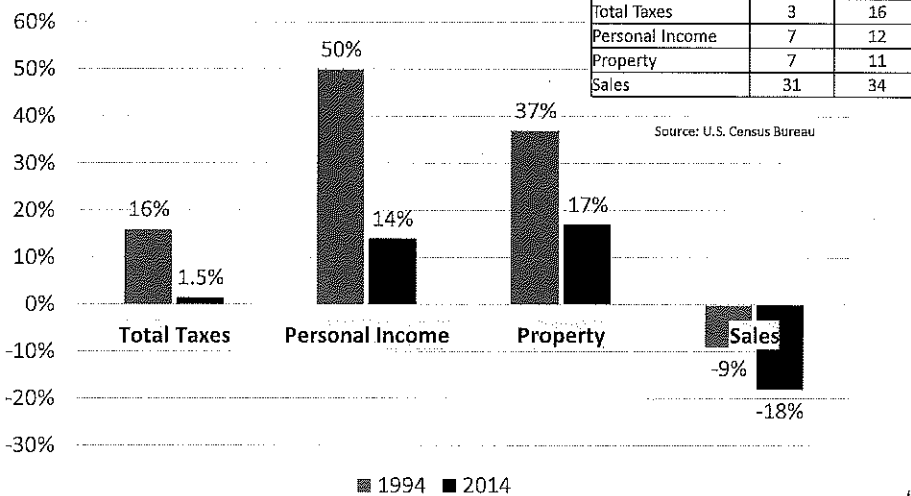
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Wisconsin's Tax Burden is Decreasing

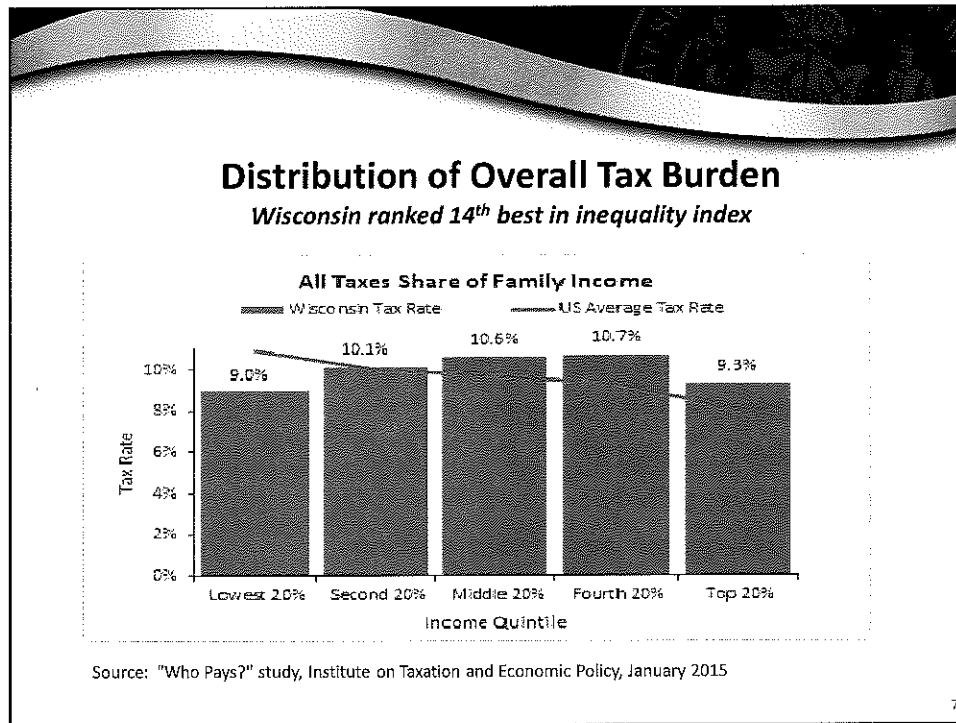
- Wisconsin's state-local tax burden is now only 1.5% above the national average
 - Wisconsin's tax rank was 16th among the 50 states in 2014
 - Source: U.S. Census Bureau report, December 2016
- We're making steady progress
 - In 1994, we ranked 3rd
 - In 2010, we ranked 9th
- There is a two-year lag in these rankings
 - We will improve even more when the ongoing effects of the income tax rate cuts and the continued property tax controls are shown in updated rankings

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Wisconsin's Tax Burden Compared with National Averages

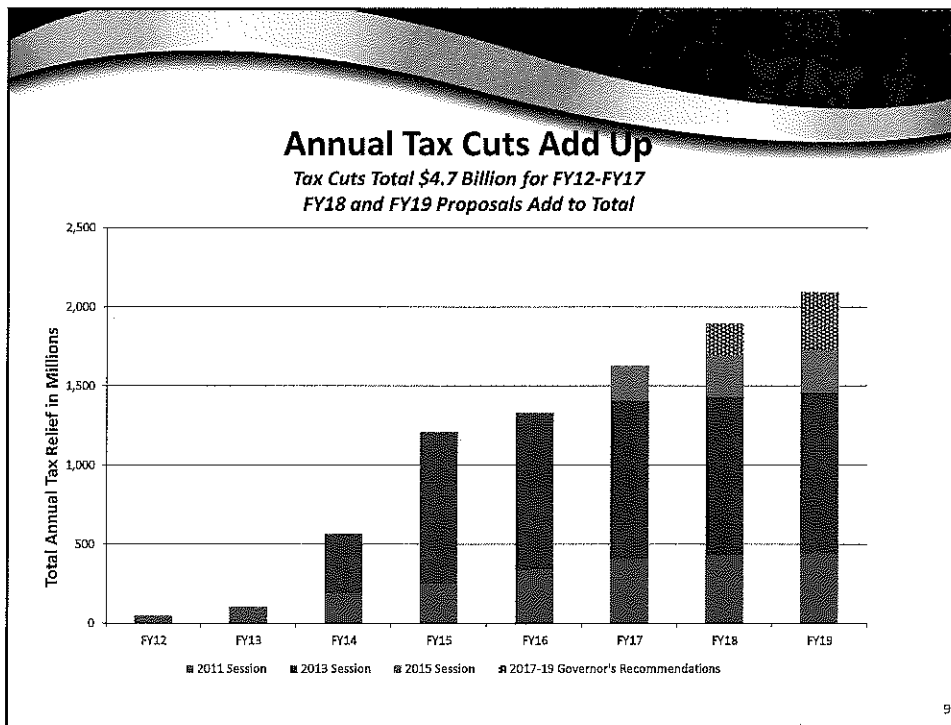


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2017 Budget Bill Initiatives Provide Continued Tax Relief

- **Additional income tax rate cuts in Tax Years 2017 and 2018**
 - Decrease bottom rate from 4.00% to 3.90%
 - Decrease rate for second bracket from 5.84% to 5.74%
 - Broaden second bracket for all filers
- **Continued property tax relief**
 - Property taxes for a median value home will continue to drop
 - The state property tax will be eliminated
- **Earned Income Tax Credit increase**
- **Sales tax holiday**
- **Total tax relief in FY18 and FY19: \$593 million**



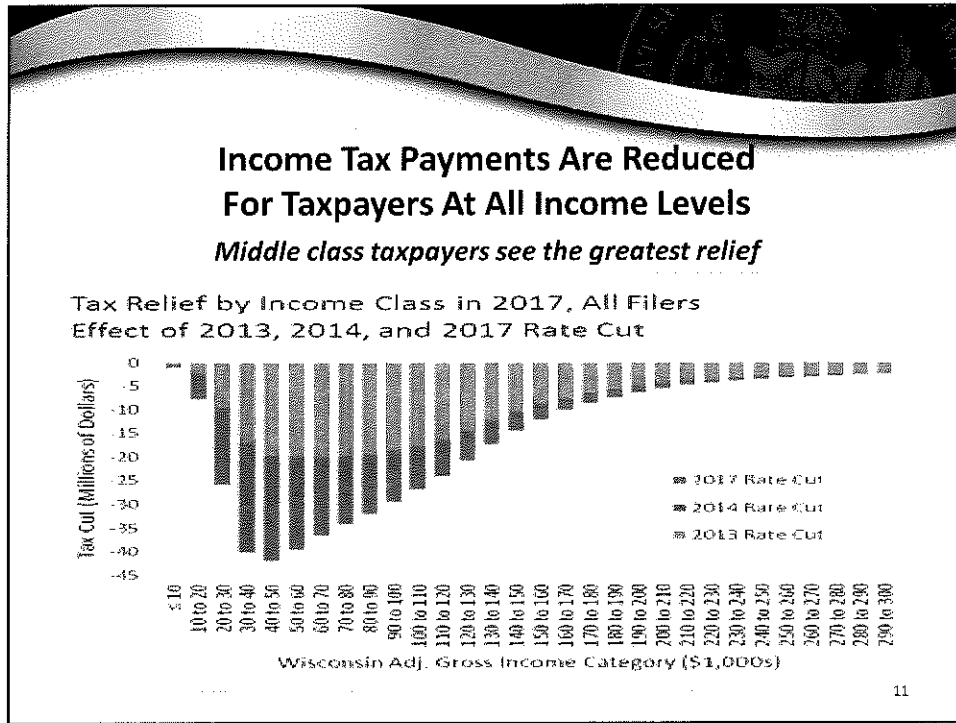
Governor Walker's Tax Reform Initiatives Reduce Income Tax Rates

Tax Rate Reduction, TY12-TY17

Rate	Bottom Rate	2nd Rate	3rd Rate	4th Rate	Top Rate
Before	4.60%	6.15%	6.50%	6.75%	7.75%
	↓	↓	↓	↓	↓
After	3.90%	5.74%	6.27%	6.27%	7.65%

\$29,960 (reduction from 6.15% to 5.74%)
 \$37,450 (reduction from 6.50% to 6.27%)

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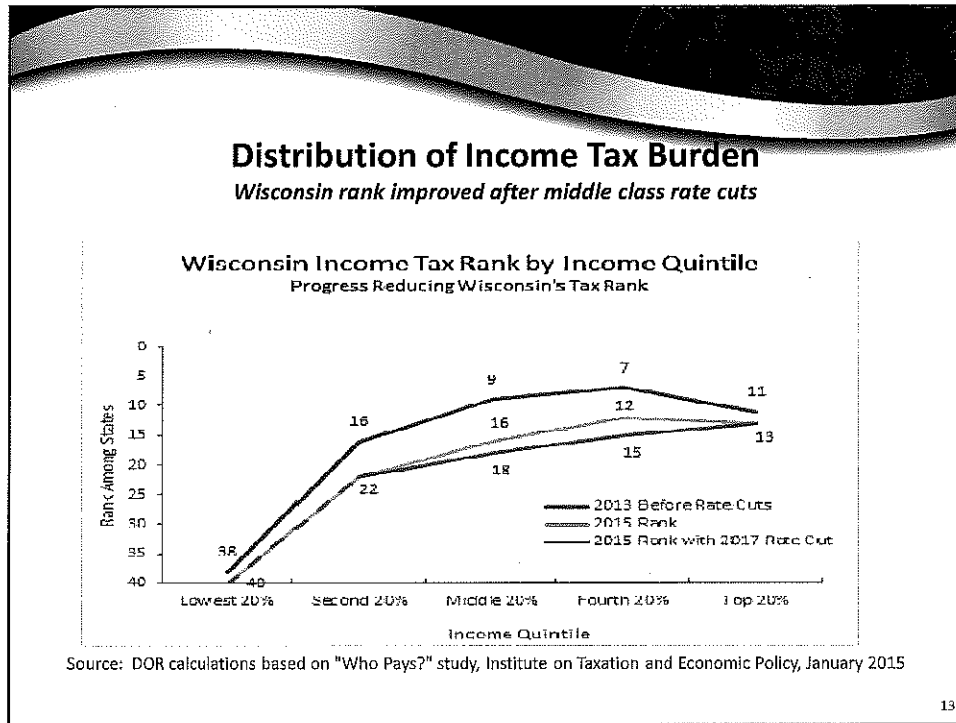


Middle Class Taxpayers See Significant Tax Relief

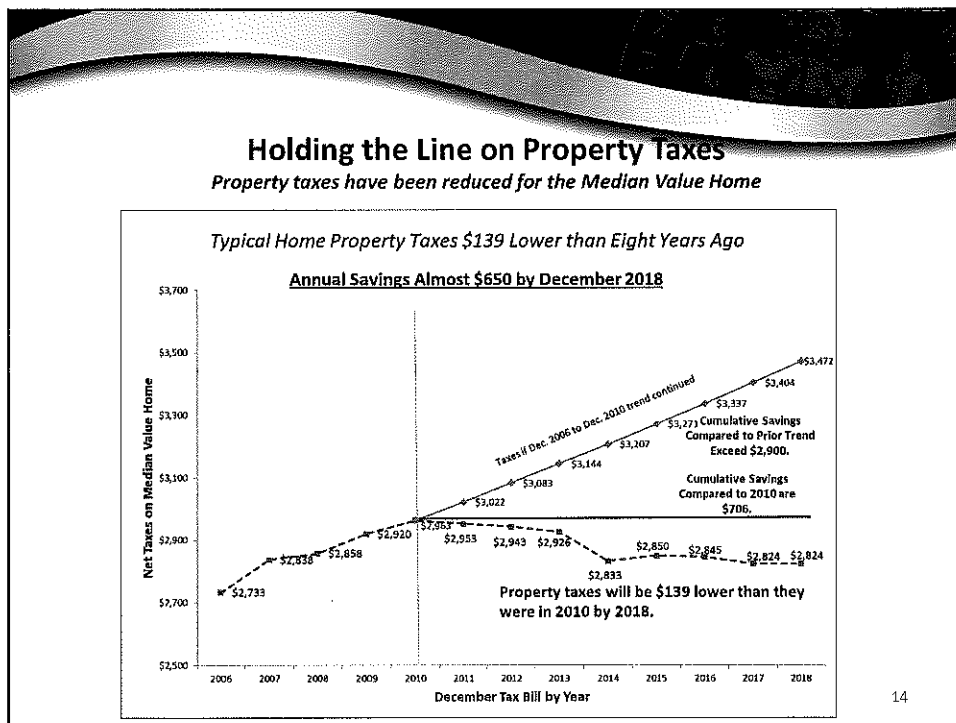
Median income family	TY13 reduction	TY14 reduction	TY15 reduction	TY16 reduction	TY17 reduction	TY18 reduction	Six-year total
Rate cuts effective in TY13	-\$186	-\$187	-\$185	-\$184	-\$184	-\$182	-\$1,108
Rate cuts effective in TY14	--	-\$57	-\$59	-\$59	-\$59	-\$61	-\$298
Rate cuts effective in TY17	--	--	--	--	-\$69	-\$70	-\$139
Total	-\$186	-\$244	-\$244	-\$243	-\$312	-\$313	-\$1,542
Percent Reduction	-4.8%	-6.2%	-6.3%	-6.3%	-8.0%	-8.1%	

A median income family of four will receive combined Tax Relief of \$1,542 from tax year 2013 to tax year 2018. Their income taxes will be 8.1% lower than under prior law for tax year 2018.

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State Portion of Property Tax Eliminated

- Eliminate the state portion of property tax bills
 - Along with other measures in previous budgets, this will mean that the owner of a median value home will have saved \$706 compared with the 2010 property tax bill
- General fund revenues will fund the forestry account in the conservation fund in the future
 - FY18: \$89 million
 - FY19: \$92 million

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Earned Income Tax Credit Increase

- Increase funding for the Wisconsin EITC by \$22 million
- The EITC encourages work by:
 - Reducing the impact of higher tax rates as earnings increase for low income workers
 - Offsetting the decrease in public benefits that low income workers experience as earnings increase
 - 26 states have a state EITC to supplement the federal EITC
- The budget bill increases Wisconsin's EITC for low income workers with one child from 4% to 11% of the federal credit in Tax Year 2018
 - Wisconsin's EITC for low income workers with two children is 11% and for three or more children is 34%
- The budget bill creates a three-year hold-harmless honeymoon period to prevent the EITC from dropping when low income workers with children get married

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Tax Credits to Encourage Work

- Young adult employment assistance credit
 - Provide a refundable credit for young adults who age out of home placement programs where they received protection and services
 - Helps young adults transition into workforce
 - 125% of federal EITC for claimants with no children
- Homestead credit
 - Provide credit to seniors, people with disabilities, and people who are working
 - Index calculation of credit to inflation for seniors and people with disabilities

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Sales Tax Holiday

- Create a "back to school" sales tax holiday for two days in August
- "Back to school" items below certain thresholds will be exempt from sales tax
 - Clothing under \$75
 - Computers under \$750
 - Certain school supplies under \$75
- Tax savings: \$11 million per year

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DOR Positions

- The budget bill reduces DOR's position count by a net 20 positions
 - 12 DOR HR positions are moving to DOA, so there would be a net decrease of 8 state positions
- DOR is requesting the elimination of 69 positions and the addition of 49 project positions
- DOR position count in FY19 would be 1,182, which is lower than in 1975

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DOR Positions

- The positions DOR proposes to add are project positions for:
 - Collecting delinquent taxes (20)
 - Processing bills (18)
 - State Debt Collection program (8)
 - Unclaimed property program (2)
 - Dashboard to monitor local government spending (1)

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DOR Positions

- The new project positions will not be used to hire auditors to visit Wisconsin businesses
- The positions added in past budgets were not for auditing Wisconsin businesses
 - 2015 budget: Added audit positions were focused on out of state businesses, dealing with nexus, sales and use tax, and apportionment issues
 - 2013 budget: Added positions were for processing bills, collecting taxes due, anti-fraud initiative

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Lottery Product Information Funding

- Increase funding for lottery product information budget by \$3 million SEG per year
 - Currently \$7.5 million per year
 - Restores buying power to FY08 level (last time budget was increased)
- Return on investment:
 - Cost: \$3 million SEG per year
 - Increased sales of \$12 million in FY18 and \$15 million in FY19
- Total lottery administrative expenses were less than 6% of sales in FY16, below statutory cap of 10%
 - Administrative expenses will still be below cap under budget proposal

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Appendix 1 Wisconsin's Revenue and Tax Rank *State and Local Revenue for 2013-14*

	Wis % of personal income	Wis Rank	% above + % below - U.S. average
All Taxes	10.8%	16	+ 1.5%
Property Taxes	3.9%	11	+ 17.3%
Individual Income Taxes	2.8%	12	+ 14.1%
General Sales Taxes	2.0%	34	- 17.8%
Corporate Income Taxes	0.4%	15	+ 3.1%
Fees and Charges	3.1%	29	-4.0%
All Taxes and Fees	13.8%	22	+ 4.8%

- The most recent combined state and local revenue rankings are displayed above
- Ranks exclude the District of Columbia

Source: U.S. Census Bureau, 2014 Annual Survey of State and Local Government Finances, Issued December 2016

Appendix 2 Wisconsin's State and Local Tax Mix Sources of tax revenue *State and local tax collections for 2015-16, Millions of Dollars*

Property taxes (gross levy less school levy credit)	\$9,767.2	36.5%
Income taxes	7,740.8	28.9
Sales taxes	5,065.8	18.9
Motor vehicle taxes (Incl. gas tax & vehicle registration fees)	1,728.6	6.5
Corporate income taxes	963.0	3.6
Other (Incl. cig & other excise taxes, utility, ins premium, real estate transfer fee, and misc.)	1,517.6	5.4
Total	\$26,783.0	100%

Appendix 3

DOR Position Changes in 2017 Budget Bill

LFB Ref.	Position Description	Count
Item 1, p. 381	Eliminate 2013 project positions	-33 GPR
Item 1, p. 381	Eliminate unclaimed property project positions	-2 GPR
Item 1, p. 381	Eliminate IT project positions	-3 SEG, GPR
Item 4, p. 382	Eliminate vacant IT positions	-9 GPR
Item 4, p. 390	Eliminate Lottery warehouse, telesell positions	-10 SEG
Item 5, p. 383	Transfer HR positions to DOA	-12 GPR, PR, SEG
	Subtotal: Positions reduced	-69
Item 1, p. 384	Add delinquent tax project positions	+20 GPR
Item 1, p. 384	Add billing project positions	+18 GPR
Item 2, p. 384	Add debt collection project positions	+8 PR
Item 2, p. 382	Add unclaimed property project positions	+2 PR
Item 6, p. 383	Add local government dashboard project position	+1 GPR
	Subtotal: Positions added	+49
	Net position reduction	-20

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