



Legislative Fiscal Bureau

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TO: Representative Mark Born
Room 308 East, State Capitol

FROM: Dan Spika, Fiscal Analyst

SUBJECT: Individual Income Tax Estimates for Two Wisconsin Families, Tax Year 2021

This memorandum responds to your request regarding individual income tax estimates for tax year 2021 for a Wisconsin family under current law provisions and assuming that certain tax changes enacted since 2010 had not occurred.

Family Profiles

In tax year 2019, approximately 3.1 million taxpayers filed an individual income tax return in Wisconsin. With such a large number of filers, it is difficult to pinpoint a "typical" taxpayer for purposes of this analysis. Nonetheless, certain characteristics for the "average" taxpayer can be identified using available data. In its American Community Survey, the U.S. Census Bureau reports that median family income in Wisconsin increased from \$62,088 in 2010 to \$81,829 in 2019. Using national income growth projections for wages and salaries from IHS Markit, a median family income of \$87,465 is estimated for 2021. Based on preliminary aggregate statistics from the 2019 tax year compiled by the Department of Revenue (DOR), other characteristics for married joint filers at this income level can be estimated. For example, the primary earner's income represents 58% of the couple's joint income, with the other spouse contributing 42%. Also, the family is assumed to have two children (dependents), to spend \$3,040 on deductible child care expenses, and to own a house with a 2021(22) tax bill estimated at \$3,463.

A second family profile was constructed assuming a head-of-household filing status. Based on DOR's preliminary aggregate statistics, head-of-household filers have wage income equal to 41% of that for married joint filers, yielding estimated income for this second family of \$36,225 in tax year 2021. The preliminary DOR data also indicate that the head-of-household family at this income level would incur annual deductible child care expenses of \$2,368 for two children and pay rent for an apartment or residence with a property tax equivalent of \$1,873.

Individual Income Tax Law Changes

Since 2010, several individual income tax law changes have been enacted, but many of these

would not significantly impact the families described above. For purposes of this analysis, the combined effects of the following law changes were included.

The income tax rates and brackets have been adjusted four times. 2013 Act 20 (the 2013-15 biennial budget bill) reduced the number of tax brackets from five to four, and reduced the tax rate for each of the resulting four brackets, effective in tax year 2013. Subsequently, 2013 Act 145 reduced the rate for the bottom bracket from 4.4% to 4.0%, beginning in tax year 2014. Effective in tax year 2019, 2019 Act 9 (the 2019-21 biennial budget bill) reduced the rate for the second lowest bracket from 5.84% to 5.21%. Finally, 2019 Act 10 reduced the rates for the bottom two brackets to 3.54% and 4.65%, first effective in tax year 2020, to offset the additional amount of sales and use taxes collected from remote sellers and marketplace providers during the period of October 1, 2019, to September 30, 2020.

For married persons, the 2015-17 biennial budget bill (2015 Act 55) increased the sliding scale standard deduction amount and the phaseout threshold, effective in tax year 2016. Finally, 2011 Act 32 (the 2011-13 biennial budget bill), reduced the credit rates under the state earned income tax credit (EITC) from 14% to 11% for claimants with two children, and from 43% to 34% for claimants with three or more children, beginning in tax year 2011. The state EITC is a refundable credit, such that if the amount owed a claimant exceeds their tax liability, a check is issued for the difference.

Tax Estimates

Based on the preceding family profiles, the aforementioned tax changes would reduce total tax liability after refundable credits in tax year 2021 for the married couple by an estimated \$552 and for the head of household filer by an estimated \$192. The married couple's total tax liability after refundable credits would decrease from an estimated \$3,645 to \$3,093, and the head of household filer's total tax liability after refundable credits would decrease from \$551 to \$359. The 2015 changes to the sliding scale standard deduction would only affect the married couple, and the 2011 changes to the state EITC would only affect the head of household filer.

Estimated State Total Tax Liability After Refundable Credits Under the State Individual Income Tax Under Current Law and Under Prior Law for Two Hypothetical Tax Filers, Tax Year 2021

<u>Filing Status</u>	<u>Married Joint</u>	<u>Head-of-Household</u>
Income Before Adjustments	\$87,465	\$36,225
Net Tax Under:		
Current Law	3,093	359
Prior Law	3,645	551
Change	-552	-192

I hope that this information is helpful. Please contact me if you have questions.

DS/ml