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Joint Committee on Finance Paper #325

Overview of Broad-Based General Fund Tax Reductions
(General Fund Taxes -- Income and Franchise Taxes)

CURRENT LAW

General fund tax collections represent the major source of revenues available to fund appropriations from the state's general fund. In 2023-24, Wisconsin general fund tax collections totaled $21.3 billion. While many different taxes provide revenues to the general fund, the three major general fund taxes are the individual income tax, the general sales and use tax, and the corporate income/franchise tax. In total for 2023-24, these three taxes represented 94% of general fund tax collections. This paper provides the estimated cost to the state's general fund of providing broad-based tax relief via reductions to each of these taxes.

Under current law, 0.25% of projected general fund tax revenues, as published in the general fund condition statement in the biennial budget act, are transferred from the general fund to the transportation fund on June 30 of each year. Absent changes to the current law transfer, any tax reduction (or increase) enacted as part of the 2025-27 biennial budget act would correspondingly reduce (or increase) the transfer to the transportation fund.

Individual Income Tax

The state individual income tax is the major source of general fund tax revenue in Wisconsin. In fiscal year 2023-24, individual income tax collections totaled $9.72 billion and comprised over 45% of state general fund tax revenue.

There are several steps involved in calculating state individual income tax liability. In brief, these steps are to: (a) determine Wisconsin adjusted gross income (AGI); (b) subtract the sliding scale standard deduction (SSSD) and personal exemptions from AGI to determine Wisconsin taxable income; (c) apply the state's tax rate and bracket schedule to taxable income to find gross tax liability; (d) subtract nonrefundable credits from gross tax to arrive at net tax liability; and (e) subtract refundable credits from net tax to arrive at total tax liability.

Table 1 displays the parameters of the SSSD under current law for tax year 2025. Each tax year, the parameters of the SSSD are indexed for inflation (and rounded to the nearest $10) based on the change in the consumer price index for all urban consumers, U.S. city average (CPI-U) from August of the previous year over August of a specified base year, provided the adjustment yields a positive number.

TABLE 1

Current Law Sliding Scale Standard Deduction, Tax Year 2025

Marital Status	Wisconsin AGI	Standard Deduction
Single	Less than $19,550	$13,560
	$19,550 to $132,550	$13,560-12.0% (WAGI-$19,550)
	Greater than $132,550	$0
Married, Joint	Less than $28,210	$25,110
	$28,210 to $155,169	$25,110-19.778% (WAGI-$28,210)
	Greater than $155,169	$0
Married, Separate	Less than $13,390	$11,930
	$13,390 to $73,710	$11,930-19.778% (WAGI-$13,390)
	Greater than $73,710	$0
Head-of-Household	Less than $19,550	$17,520
	$19,550 to $57,210	$17,520-22.515% (WAGI-$19,550)
	Greater than $57,210	Single Standard Deduction

Since tax year 2001, a personal exemption of $700 is provided for each taxpayer, their spouse (if filing married-joint) and each of a taxpayer's qualifying dependents. An additional $250 exemption is provided for each taxpayer (and each spouse if a married-joint filer) who has reached the age of 65 by the close of the relevant tax year (elderly exemption).

State law establishes four tax brackets and assigns a marginal tax rate to each bracket. The brackets vary by filing status, and each bracket spans a range of taxable income. The brackets have been adjusted for inflation since tax year 1999 in the same manner as the SSSD. Each marginal tax rate applies only to income that falls within the corresponding bracket, and a taxpayer's gross tax is the cumulative tax from each applicable bracket. Table 2 shows the tax rate and bracket schedule for tax year 2025. Tax tables prepared by DOR simplify the tax calculation process by allowing taxpayers to look up their taxable income and find the gross tax amount that corresponds to that income level.

TABLE 2

Current Law Individual Income Tax Rate and Bracket Schedule, Tax Year 2025

	Income Tax Brackets by Filing Status		
Tax Rate	Single and Head-of-Household	Married-Joint	Married-Separate
3.50%	$0 to $14,680	$0 to $19,580	$0 to $9,790
4.40%	14,680 to 29,370	19,580 to 39,150	9,790 to 19,580
5.30%	29,370 to 323,290	39,150 to 431,060	19,580 to 215,530
7.65%	323,290 and over	431,060 and over	215,530 and over

Nonresident members of pass-through entities have income taxes withheld at the highest rate applicable to individuals (currently 7.65%). Therefore, if the top marginal rate is reduced, there will be a corresponding reduction in the tax amounts withheld from these nonresident members. Table 5 includes the associated fiscal impact estimated to result from changes to the 7.65% rate.

Corporate Income/Franchise Tax

Wisconsin has both a corporate income tax and a corporate franchise tax. Generally, companies having any intrastate business are subject to the franchise tax, while those having only interstate business here are subject to the income tax. In 2023-24, the corporate income/franchise tax was the state's third largest source of revenue, generating $2.70 billion (12.7% of general fund revenues).

A C corporation determines state income/franchise tax liability by computing gross or total income, subtracting deductions, apportioning the net income to the state (if necessary), adjusting for nonapportionable income and net operating losses (if applicable), applying the 7.9% state tax rate, and subtracting tax credits.

Provisions of 2017 Act 368 allow tax-option (S) corporations and partnerships to elect, via persons holding more than 50% of the shares or capital and profits of a partnership, to be taxed at the entity level (reported under corporate tax collections) rather than generally requiring income to be passed through to their respective owners, members, or shareholders (reported under the individual income tax). Both the corporate income/franchise tax rate and the tax rate on pass-through entities (PTE) of 7.9% exceed the highest individual income tax rate (7.65%) by 25 basis points.

The federal Tax Cuts and Jobs Act of 2017 (TCJA) limited the federal individual income tax itemized deduction for state and local taxes (the "SALT" deduction) to no more than $10,000 per year for tax years 2018 through 2025. Under prior state law, pass-through income of individuals was subject to individual income tax, and the resulting state tax was subject to the deduction limit for federal tax purposes. However, pursuant to Act 368 and guidance issued by the Internal Revenue Service (Notice 2020-75) in November of 2020, partnerships and S corporations may fully deduct their entity-level SALT payments without limitation. If the value of the SALT deduction exceeds the increased cost of the higher state PTE tax rate, it makes economic sense for certain tax filers to pay at the entity level.

Beginning in tax year 2026, the SALT limitation for individuals is scheduled to expire under federal law, at which point current PTE filers are expected to revert to filing and paying under the individual income tax. Expiration of the federal SALT deduction limit is estimated to reduce income and franchise tax revenues by $25.0 million in 2025-26 and $85.0 million in 2026-27, comprised of increased individual income tax revenues of $250.0 million in 2025-26 and $840.0 million in 2026-27 and lower corporate income/franchise tax revenues of $275.0 million in 2025-26 and $925.0 million in 2026-27. The estimates for certain individual income tax provisions in Table 5, and the corporate estimates in Table 6, have been adjusted to reflect this anticipated filing shift.

Economic Development Surcharge

The economic development surcharge is imposed on S corporations, C corporations, and domestic insurers that are required to file a corporate income/franchise tax return if they have at least $4 million in gross receipts from all activities (generally includes all sales, dividends, interest income, rents, royalties, net gain from the disposition of capital assets, gross receipts passed through other entities and other receipts). Partnerships and individuals are exempt from the surcharge. The surcharge does not apply to entities that are not required to file a tax return.

The economic development surcharge equals 3% of gross tax liability for C corporations (including insurance companies) or 0.2% of net business income for S corporations. Although the amount paid varies by year, generally half of the amount collected is remitted by C corporations and half by S corporations. The minimum surcharge is $25 and the maximum is $9,800. In 2023-24, surcharge revenues were $46.2 million.

The Wisconsin Economic Development Corporation's (WEDC) primary source of state funding for economic development programs and operations is the economic development surcharge. State law also provides GPR funding for WEDC operations and programs under a sum sufficient appropriation. However, GPR may be expended from WEDC's sum sufficient appropriation only if there are no unencumbered moneys available in the economic development fund. Effectively, the first draws for programs and operations come from the economic development fund until the available balance of the SEG appropriation is depleted.

The funding for operations and programs is provided in an amount of GPR equal to $41,550,700 minus the amounts expended from the economic development fund and the environmental fund. Because the environmental fund provides $1 million for WEDC programs, amounts available from the economic development fund must be lower than $40,550,700 before GPR is appropriated for WEDC programs.

General Sales and Use Tax

The state sales and use tax is imposed at a rate of 5% on retail sales of tangible personal property, certain digital goods, and selected services in Wisconsin. The use tax is imposed on taxable sales that occur in other states if the purchased item is used in Wisconsin. In 2023-24, the sales and use tax was the state's second largest source of revenue, collecting $7.59 billion (35.6% of general fund revenues).

The tax on tangible personal property is a general sales tax imposed on all retail sales unless a specific exemption is provided. Major exemptions include food for home consumption, prescription drugs, heating fuel, residential electricity sold from November through April, and gasoline. In contrast, the tax on services is selective, and is only imposed on a small number of services identified in the statutes. These include: hotel and motel lodging; admissions to amusement, athletic, and entertainment events; certain telecommunications services; laundry and dry cleaning; photographic services; towing, hauling, parking, and docking; installation, repair, and maintenance of taxable personal property; certain printing services; cable television and video services; warranties and service contracts; and landscaping and lawn maintenance.

Under 2023 Acts 12 and 19, a segregated fund entitled the "Local Government Fund" was established and funded. Within the local government fund, $753.1 million was deposited into the newly-created county and municipal aid account and $274.9 million was deposited into the supplemental county and municipal aid account in 2024-25. In 2025-26, and each year thereafter, these amounts that are transferred to the aid accounts within the local government fund equal the sum of the following: (a) the amounts transferred to the accounts in the previous fiscal year; and (b) the percentage change in the estimated amount of state sales and use tax revenues for the previous fiscal year compared to the preceding fiscal year, multiplied by the amounts available for distribution from the aid accounts in the previous fiscal year.

In addition, 2023 Act 19 creates an ongoing transfer from the general fund to the transportation fund of an amount associated with the sales taxes generated from sales of electric vehicles (EVs) in the state, as shown for the transfer in the general fund summary schedule of the biennial budget act for EV sales tax.

DISCUSSION POINTS

1. This paper presents information for consideration of broad-based general fund tax relief by modifying the standard deduction, personal exemptions, the individual income tax rate and bracket structure, the corporate income/franchise tax rate, and the general sales and use tax rate. The fiscal effects shown on Tables 5, 6, and 7 assume each tax reduction would take effect in tax year 2025. The individual income tax estimates do not assume a withholding table update (described under LFB Paper #327) in conjunction with the law change.

Individual Income Tax

2. Table 3 displays possible parameters of an expanded SSSD relative to current law. The maximum deduction amount would be increased by: (a) $5,000 for single and head-of-household filers; (b) $6,500 for married-joint filers; and (c) $3,250 for married-separate filers. The income amount at which the maximum deduction begins to phase out would be increased by 25% for each filing status.

TABLE 3

Modify Sliding Scale Standard Deduction, Tax Year 2025

Marital Status	Wisconsin AGI	Standard Deduction
Single	Less than $24,440	$18,560
	$24,440 to $179,107	$18,560-12.0% (WAGI-$24,440)
	Greater than $179,107	$0
Married, Joint	Less than $35,260	$31,610
	$35,260 to $195,084	$31,610-19.778% (WAGI-$35,260)
	Greater than $195,084	$0
Married, Separate	Less than $16,740	$15,180
	$16,740 to $93,492	$15,180-19.778% (WAGI-$16,740)
	Greater than $93,492	$0
Head-of-Household	Less than $24,440	$22,520
	$24,440 to $62,100	$22,520-22.515% (WAGI-$24,440)
	Greater than $62,100	Single Standard Deduction

3. An alternative method to expand the standard deduction would be to replace the SSSD with the federal standard deduction, the parameters of which are displayed in Table 4, beginning in tax year 2025. The additional exemption amount shown in Table 4 for taxpayers aged 65 and over would replace the elderly exemption under current state law. The higher additional exemption amount of $2,000 shown in Table 4 is available to taxpayers aged 65 and over who are unmarried and are not a surviving spouse. In contrast to the SSSD, the federal standard deduction is available to all taxpayers regardless of income, and the deduction amount does not vary based on income. However, the inflation factor for the federal deduction is based on the chained CPI, which generally produces smaller annual increases than the CPI-U (used for the state deduction).

TABLE 4

Current Law Federal Standard Deduction by Filing Status, Tax Year 2025

Single	Married-Joint	Head-of-Household	Married-Separate	Claimed as Dependent	Age 65 or Blind
$15,000	$30,000	$22,500	$15,000	$1,350*	$1,600/$2,000

*For filers who can be claimed by another taxpayer as a dependent, the standard deduction is the greater of $1,350 or the sum of $450 and the filer's earned income, not to exceed the applicable amount if the filer was not a dependent.

4. It should be noted that the federal standard deduction amounts in Table 4 represent a temporary expansion of the deduction for tax years 2018 through 2025. Pursuant to the TCJA, the standard deduction expansion was passed in conjunction with elimination of federal personal

exemptions and curtailments to various itemized deductions. These temporary changes are scheduled to sunset after tax year 2025.

If the Legislature were to federalize the state standard deduction, and if this sunset occurs, the Legislature would be required to decide for tax years 2026 and thereafter whether to decouple from federal law and continue providing the expanded federal standard deduction, or remain federalized and revert to the non-expanded amounts. Conversely, if the sunset did not occur as scheduled, or if the federal standard deduction were otherwise increased after tax year 2025, these changes would be automatically adopted for state tax purposes unless the Legislature took alternative action.

However, Table 5 presents an example whereby the federal standard deduction (Table 4) is adopted for state tax purposes after tax year 2025, and the amounts are indexed each year based on changes to the CPI-U (in the same manner as applies to the SSSD under current law) rather than the chained CPI. If the federal government extended the TCJA standard deduction to future years, the state standard deduction under this example would increase at a faster rate than the federal standard deduction over time.

5. Personal exemptions are provided to account for taxpayer differences in family size. The $700 personal exemption amount could be increased by $100, and the elderly exemption could be increased proportionally (by $35). Alternatively, the $700 personal exemption and $250 elderly exemption amounts could be doubled (to $1,400/$500) or tripled (to $2,100/$750).

6. In recent years, the Legislature has considered and enacted broad-based tax relief via several individual income tax rate reductions. For example, beginning in tax year 2019, the rate for the second lowest tax bracket was reduced under 2019 Act 9 (the 2019-21 biennial budget bill) from 5.84% to 5.21%. Under 2019 Act 10, the rates for the two lowest tax brackets were reduced based on state sales tax revenues generated from remote sellers. Act 10 reduced the two lowest rates in tax year 2019 from 4.00% to 3.86% and from 5.21% to 5.04%, and in tax year 2020 to 3.54% and 4.65%, respectively. The rate for the third bracket was lowered under 2021 Act 58 (the 2021-23 biennial budget bill) from 6.27% to 5.30%, beginning in tax year 2021. Finally, the rates for the two bottom brackets were further reduced under 2023 Act 19 (the 2023-25 biennial budget bill) from 3.54% and 4.65% to 3.50% and 4.40%, respectively.

7. There exist numerous ways to reduce the individual income tax rate and bracket schedule shown in Table 2. Among these are to: (a) reduce each rate; (b) effectively collapse a bracket by lowering the associated tax rate to be equal to the rate for the next lowest bracket; and (c) expand the taxable income amounts which apply to a bracket. Table 5 includes the fiscal impact of several potential options for providing tax relief by modifying the rate and bracket schedule in these ways ("M-J" in the table refers to married-joint filers). The table also displays the estimated fiscal impact of the potential changes to the SSSD and personal exemptions described above.

TABLE 5

Estimated Fiscal Effect of Various Individual Income Tax Reductions, Beginning in Tax Year 2025 (Millions)

Provision	2025-26	2026-27	2025-27 Biennial Total
Options for Standard Deduction Changes			
Expand SSSD	- $568.6	- $577.5	- $1,146.1
Federalize Standard Deduction*	-1,422.0	-1,422.7	-2,844.7
Options for Personal Exemption Changes			
Increase Personal Exemption by $100/$35	-23.6	-22.7	-46.3
Double Personal Exemption (to $1,400/$500)	-163.8	-158.0	-321.8
Triple Personal Exemption (to $2,100/$750)	-325.2	-313.7	-638.9
Options for 25 Basis Point Rate Reductions			
Reduce 3.50% Rate to 3.25%	-96.0	-97.1	-193.1
Reduce 4.40% Rate to 4.15%	-80.6	-81.3	-161.9
Reduce 5.30% Rate to 5.05%	-316.7	-309.4	-626.1
Reduce 7.65% Rate to 7.40%	-98.2	-111.1	-209.3
Reduce Each Rate by 25 Basis Points	-604.3	-598.8	-1,203.1
Options for 50 Basis Point Rate Reductions			
Reduce 3.50% Rate to 3.00%	-191.6	-193.8	-385.4
Reduce 4.40% Rate to 3.90%	-161.2	-162.5	-323.7
Reduce 5.30% Rate to 4.80%	-632.9	-618.5	-1,251.4
Reduce 7.65% Rate to 7.15%	-196.4	-222.2	-418.6
Reduce Each Rate by 50 Basis Points	-1,207.1	-1,196.3	-2,403.4
Options for Reducing the Number of Tax Brackets			
Collapse 4.40% Bracket into 3.50%	-290.1	-292.4	-582.5
Collapse 5.30% Bracket into 4.40%	-1,138.2	-1,112.2	-2,250.4
Collapse 7.65% Bracket into 5.30%	-918.7	-1,040.3	-1,959.0
Options to Expand Bracket Widths			
Expand 4.40% Bracket by $50,000 M-J**	-494.9	-494.0	-988.9
Expand 5.30% Bracket by $50,000 M-J**	-49.6	-46.8	-96.4
Expand 4.40% Bracket by $100,000 M-J**	-757.4	-754.0	-1,511.4
Expand 5.30% Bracket by $100,000 M-J**	-90.3	-85.2	-175.5

*The $250 elderly exemption would be repealed. The temporary federal amounts would increase by changes to CPI-U after tax year 2025.
**For all other filing statuses, the brackets would be expanded by the same ratio to M-J as exists under current law (Single/Head-of-Household = 75% of M-J, and Married-Separate = 50% of M-J).

Corporate Income/Franchise Tax

8. Under current law, corporate income/franchise tax collections are estimated at $2,385 million in 2025-26 and $1,785 million in 2026-27. The 7.9% corporate tax rate and PTE tax rate exceed the tax rate applicable to the highest individual income tax bracket (7.65%) by 25 basis points.

As a result, C corporations and PTE filers are subject to a higher tax rate relative to businesses subject to the individual income tax (such as sole proprietors and most owners of pass-through entities). Table 6 shows the estimated revenue impact under the corporate income/franchise tax of four different rate reductions that would lower the rate from 7.9% to: (a) 7.65%; (b) 7.40%; (c) 7.15%; and (d) 6.90%. These corporate rate reductions include the rate for domestic insurance companies and pass-through entities electing to file at the entity level (PTE filers). Also shown is the accompanying revenue effect on the economic development surcharge. Because the surcharge equals 3% of the gross tax liability for C corporations and 0.2% of net business income for S corporations, a decrease in the corporate income/franchise tax rate will also result in a decrease in collections under the surcharge. Roughly half of the surcharge payments are remitted by C corporations and half are from S corporations.

TABLE 6

Estimated Fiscal Effect of Corporate Rate Reductions, Beginning in Tax Year 2025 (Millions)

Rate Reduction	2025-26	2026-27	2025-27 Biennium	Fund Source
25 Basis Points (to 7.65%)	-$97.9	-$61.7	-$159.6	GPR-Tax
	-0.1	-0.5	-0.6	SEG-REV
50 Basis Points (to 7.40%)	-195.1	-123.0	-318.1	GPR-Tax
	-0.2	-1.0	-1.2	SEG-REV
75 Basis Points (to 7.15%)	-291.7	-183.9	-475.6	GPR-Tax
	-0.4	-1.5	-1.9	SEG-REV
100 Basis Points (to 6.90%)	-388.3	-244.8	-633.1	GPR-Tax
	-0.5	-2.0	-2.5	SEG-REV

9. The estimated fiscal effect for 2026-27 is lower than in 2025-26 for two reasons. First, because tax years and fiscal years do not align, the one-time effect of the rate reductions for the first six months of 2025 is included into 2025-26. Second, the estimate reflects the scheduled expiry of the federal $10,000 limitation on deducting state and local taxes in tax year 2026, which is expected to cause PTE filers to revert to filing and paying under the individual income tax, beginning with estimated payments made in the latter half of 2025-26. Depending on subsequent modifications to federal tax law regarding the SALT deduction and taxpayer behavior, these estimates could be higher or lower by an unknown amount.

10. A reduction to the corporate tax rate will result in lower economic development surcharge collections. Because the surcharge supports WEDC operations and programs, the Committee may wish to consider providing GPR to WEDC, if one of these rate reductions were adopted, to offset the revenue loss shown in Table 6. If additional funding were not provided, WEDC would be required to reduce its administration costs and/or economic development programs. Further, because of the appropriation structure for WEDC, the decrease in SEG-REV could result in an increase in expenditures from WEDC's GPR operations and programs appropriation.

General Sales and Use Tax

11. Under current law, state sales and use tax collections are estimated at $8,140 million in 2025-26 and $8,375 million in 2026-27. Table 7 shows the estimated revenue impact under the general sales and use tax of five different rate reductions, which would lower the rate from 5.0% to: (a) 4.9%; (b) 4.8%; (c) 4.7%; (d) 4.6%; and (e) 4.5%. To allow time for DOR and retailers to make the necessary changes to systems to reflect a rate decrease, changes to the sales tax rate often take effect on the first day of the third month beginning after publication of the bill. The estimates in Table 7 assume that the lower rates would take effect on October 1, 2025.

TABLE 7

Estimated Fiscal Effect of Sales Tax Rate Reductions, Beginning in 2025-26
(Millions)

Rate Reduction	2025-26	2026-27	2025-27 Biennium
10 Basis Points (to 4.9%)	-$122.1	-$167.5	-$289.6
20 Basis Points (to 4.8%)	-244.2	-335.0	-579.2
30 Basis Points (to 4.7%)	-366.3	-502.5	-868.8
40 Basis Points (to 4.6%)	-488.4	-670.0	-1,158.4
50 Basis Points (to 4.5%)	-610.5	-837.5	-1,448.0

12. It should be noted that any sales tax revenue reductions incorporated into the 2025-27 biennial budget act would reduce the amounts transferred to the local government fund and the transportation fund, relative to current estimates. If the Committee were to adopt one of the reductions proposed in Table 7, it may wish to considered whether to provide alternative funding to these segregated funds.

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