

# Wisconsin Policy Forum: Income tax changes cause average rates to fall, but not for all

Posted on Wednesday, Mar 9, 2022

>> **WisPolitics is now on the State Affairs network. Get custom keyword notifications, bill tracking and all WisPolitics content. [Get the app or access via desktop.](#)**

As state officials have cut income taxes by billions of dollars during the past decade, average tax rates have declined for most Wisconsinites, but rates for those at the bottom of the income ladder have risen, a new Wisconsin Policy Forum report concludes.

Sizable income tax cuts enacted last summer are likely to accentuate the trend of falling rates for those at middle and higher income levels, the report finds. These findings provide crucial context to a consequential debate just starting to unfold: how to use what is projected to be an unprecedented state surplus for the current two-year budget cycle that ends in mid-2023.

Since 2011, a series of large reductions to the state's individual income tax — the single largest tax at the state level — has reduced tax revenues compared to what they otherwise would have been as well as lowered average tax rates for most Wisconsinites. Corporate income taxes have also been reduced over what they would have been under previous law.

The Forum report concludes that these changes have reduced average income tax rates for all but those at the lower end of the income distribution.

“Data from the state Department of Revenue show that between 1980 and 2020, average tax rates rose for the bottom 20% of Wisconsin taxpayers (those making less than about \$8,460 in state Adjusted Gross Income (AGI) in 2020) while falling for all other income groups, particularly those at the very upper end,” the report says.

The average tax rate for this bottom group of taxpayers by AGI grew from 0.2% in 1980 to 0.5% in 2020 while the average rate for the top 1% of taxpayers decreased from 7.9% to 5.5%. The Forum also examined a more complete set of DOR data for 2008 through 2020 that accounts for refundable tax credits that can be paid to filers with no income tax liability. Those data make clear that while the bottom 20% as a whole receive more in state payments than they owe in taxes, those payments have declined over time. Meanwhile, the share of taxes paid by high-income taxpayers increased over both periods as the growth in their incomes outpaced the growth of those at the lowest income levels.

In examining data over a period of four decades, the report finds that Wisconsin's overall income tax burden has fallen but that the state income tax has become less progressive. (A more progressive income tax is one in which taxpayers with greater incomes are taxed at higher rates.) Yet the tax remains relatively progressive compared to other states and the state's income tax burden remains relatively high, in part because Wisconsin depends on that tax more heavily to fund public services.

Other key findings from the report include:

- **Key Changes:** Following tax increases on upper-income taxpayers approved in 2009, lawmakers and two governors made scores of reductions to the state's individual and corporate income taxes in the past decade. Though most were modest, three produced a significant shift. The largest on an annual basis – a reduction to the rate for the state's third income tax bracket – was signed into law last summer and will lower tax collections by roughly \$1 billion each year compared to prior law, starting with this spring's income tax returns. Other major changes were the 2011 approval of the Manufacturing and Agriculture Credit, which lowered corporate and individual income taxes on profits from those industries; and changes in the 2013-15 state budget, lowering individual income tax rates in each of the state's then-five brackets, and collapsing the then-fourth tax bracket into the third.
- **Impact to Collections:** In the state's current 2022 fiscal year ending June 30, tax collections are estimated to be nearly \$2.7 billion lower than they otherwise would have been without the 82 individual and corporate income tax changes enacted since 2011, according to figures from the Legislative Fiscal Bureau. That would be enough to cover the combined general fund budgets of the University of Wisconsin System and Departments of Corrections and Agriculture, Trade, and Consumer

Protection for one year. Over the 12-year period from July 2011 through June 2023, these changes are estimated to leave state tax collections nearly \$13.1 billion lower than they otherwise would have been.

- **Greater Share Paid by 1%:** To understand how both income and taxes vary across the state's tax filers, the Forum looked at DOR data from tax returns filed by individuals and couples from 1980 to 2020. Notably, the share of all of Wisconsin's total income tax liability owed by the top 1% of tax filers increased during this period, from 13.5% of all state income taxes in 1980 to 22.2% in 2020 – a consequence of incomes rising more quickly for higher earners. However, for these upper income taxpayers, their share of the total taxes paid has not risen as much their share of total adjusted gross income (AGI). Readers should note AGI is not the same as total income since some sources such as Social Security benefits are excluded.

Now, huge growth in tax revenues last year means the state is projected to end the two-year budget cycle in June 2023 with more than \$5.6 billion in combined gross general fund and rainy day fund reserves. This unprecedented fiscal strength provides state officials a rare opportunity — either this year or in the next state budget — to consider new tax cuts, lower debt and greater financial stability, or additional spending on public services and infrastructure.

If significant income tax changes are considered, a broader discussion about each of the state's major taxes (income, sales, and property) and whether the current system provides the right overall approach would be beneficial. Key factors include whether the system reliably brings in revenue, is not unduly complicated, is balanced in the mix of various taxes, and is fair for all taxpayers.

It is clear that ideology will play a critical role in these determinations. Still, potential decisions also should be informed by an understanding of the impact of previous changes — and consideration of the overriding principles Wisconsin leaders would like to see embodied in our state's tax system.

Click [here](#) to read the full report: “Informing the Tax Debate: A Closer Look at Trends and Changes in the State's Income Tax.”

*The Wisconsin Policy Forum is the state's leading source of nonpartisan, independent research on state and local public policy. As a nonprofit, our research is supported by members including hundreds of corporations, nonprofits, local*



*governments, school districts, and individuals. Visit [wispolicyforum.org](http://wispolicyforum.org) to learn more.*