

Authors of GOP tax cut bill push back on concerns it could put COVID-19 funds at risk

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The GOP authors of a bill to cut nearly \$3 billion in taxes argued the measure would provide significant tax relief for Wisconsinites, pushing back on concerns it could put federal pandemic aid dollars at risk.

Dem Rep. Sue Conley, of Janesville, at Wednesday's Assembly Ways and Means Committee hearing asked bill co-author Rep. David Steffen if he had looked into whether the bill could jeopardize some \$2.5 billion in federal COVID-19 funds the state and local governments have received.

Dem Gov. Tony Evers has raised concerns about the funding because the U.S. Treasury Department bars states that accepted American Rescue Plan Act dollars from using the funds to directly or indirectly offset a reduction in net tax revenue.

The Evers administration estimates the state could reduce taxes by \$113 million in 2023-24 and by \$319 million in 2024-25 before having to possibly pay back federal COVID-19 dollars.

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Steffen, R-Green Bay, noted other states have passed tax cuts and haven't had any money clawed back from the federal government. The state has already obligated or spent all of its COVID-19 pandemic relief dollars, he added.

"There's no way you can read the pandemic ARPA bill to mean that every state in the union is ineligible to providing tax relief, for new money, for five years. That is a stretch," he said.

He also argued it wouldn't make sense politically for the Biden administration to ask for money back that is being used to provide tax relief.

"Can you imagine any type of environment where you have 15 to 17, to 20-plus states who are providing relief to their people through tax relief that a president would all of a sudden say, 'No, that's out of bounds?'"

AB 386 would reduce the third-highest tax bracket to 4.4 percent from 5.3 percent. The reduction in that bracket, which covers income between \$36,840 to \$405,550 for married couples filing jointly, would account for about \$2 billion of the price tag.

The other piece is a proposed expansion of an existing break on retirement income. It would allow married couples to subtract up to \$150,000 in payments from qualified retirement plans from their taxable income if they're 67 and older.

The Legislative Fiscal Bureau has projected the combined impact of the two tax cuts would mean an average reduction of \$772 in tax year 2023.

Committee Chair John Macco during the hearing expressed support for the proposal while raising concerns about the potential impact of the cut on future state finances.

"The concern is, are we cutting off our nose to spite our face here? Are we going to run into a deficit spending problem?" the Ledgeview Republican asked.

He said it's important for the Legislature to do its due diligence to make sure "we don't turn into Kansas," noting the state had overshot its own tax adjustments.

Steffen said former Dem Gov. Jim Doyle left office with \$2 million in the state's rainy day fund, which now contains about \$1.7 billion.

"So we have a substantial rainy day fund, and, to meet expectations should bad times come in the future," he said.

Evan Umpir, director of tax, transportation & legal affairs for Wisconsin Manufacturers & Commerce, argued the state's taxes deter potential residents and prevent businesses from attracting new talent.

He said WMC would have liked to see the proposal include a cut for the top tax rate, which Evers vetoed in the state budget.

“But understanding the political climate and, for sure, likely dooming this bill were that to be included here, I still view this bill and support this as a step in the right direction because of its impact it would have on the workforce and their decisions,” Umpir told the committee.

Macco said the committee will take up the measure in an executive session Sept. 6. Assembly Speaker Robin Vos, R-Rochester, said Tuesday he expects a floor vote in the Assembly after Labor Day.

Rep. Amy Binsfeld told the hearing her proposal to require approval from a two-thirds majority of each chamber of the Legislature in order to raise taxes would ensure doing so is “an absolute last resort.”

The constitutional amendment would need to pass over two consecutive legislative sessions before it could go to voters for a referendum. Binsfeld said it’s important that the Legislature not “get carried away.”

She noted that 16 states require a two-thirds majority vote for tax increases.