



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Brian Pahnke, Administrator

CORRESPONDENCE/Memorandum

Date: August 28, 2023

To: The Honorable Tony Evers
Governor of Wisconsin

Secretary Kathy Blumenfeld
Department of Administration

From: Brian Pahnke, Administrator *BP*
Division of Executive Budget and Finance

Subject: American Rescue Plan Act (ARPA) Net Tax Reduction Calculation Update

Following enactment of the 2023-25 biennial budget as 2023 Wisconsin Act 19, this office has prepared updated information related to the estimated net overall tax reductions Wisconsin may enact before any American Rescue Plan Act (ARPA) funds provided to the State and Local Fiscal Recovery Fund (SLFRF) may be subject to potential recoupment.

In my memo of March 16, 2023, this office estimated that the state may reduce state taxes and fees by \$543 million in fiscal year 2023-24 and \$918 million in fiscal year 2024-25 before any federal SLFRF monies may be subject to possible recoupment.

Based on revised projections of general fund tax revenues and changes in the outlook for projected inflation from the Legislative Fiscal Bureau in May 2023, this office updated these estimates as of June 2, 2023, and the updated estimates indicated that a significantly smaller window exists to reduce state taxes and fees under the United States Department of the Treasury's (Treasury) Final Rules.

Under our updated estimates at that time, the state could have reduced taxes and fees by \$256 million in fiscal year 2023-24 and \$458 million in fiscal year 2024-25 before any federal SLFRF monies may be subject to possible recoupment.

Due to tax revenue changes under the 2023-25 biennial budget, including the rate reductions in the first two individual income tax brackets, a new deduction for certain commercial loans, changes in apportionment rules for financial institutions and modifications to discounts for the sales tax and cigarette tax, projected tax collections in fiscal years 2023-24 and 2024-25 will be reduced by \$143 million and \$139 million, respectively relative to those prior estimates.

These changes leave the remaining margin for tax reductions before triggering potential SLFRF recoupment at \$113 million for fiscal year 2023-24 and \$319 million for fiscal year 2024-25.

The Honorable Tony Evers, Governor
Kathy Blumenfeld, Secretary
Page 2
August 28, 2023

Because the Treasury is utilizing the U.S. Census Bureau's definition of tax revenue in its guidelines, these calculations include transportation-related tax and fee estimates.

Please note that our office continues to hold that the Treasury's Final Rules do not support the inclusion of the state's current general fund surplus as available for covered tax reductions without risking recoupment by the Treasury under the federal tax offset provision.

These estimates may be adjusted again in the future based on, among other things, further changes in the Gross Domestic Product (GDP) price deflator for each fiscal year and further updates to estimates of state tax collections as well as any separate legislation adopted that affects projected tax collections.

Please let me know if you have any questions or need any additional information.