WISCONSIN POLICY FORUM

INFORMING THE TAX DEBATE

A Closer Look at Trends and Changes in the State's Income Tax

Since 2011, Wisconsin officials have cut income taxes by billions of dollars, reducing revenues and spending on public services as a share of personal income. Though average tax rates have fallen for most Wisconsinites over the past decade and past generation, they have declined more for those with higher incomes while becoming less favorable for those with the lowest incomes. Tax cuts enacted last summer are likely to accentuate that first trend. Amid a debate about how to use an unprecedented state budget surplus, it's worth considering the impacts of recent tax changes and the strengths and weaknesses of the state's overall tax system.

Over the past decade, state lawmakers and two governors have made scores of changes – primarily cuts – to the state's individual and corporate income taxes. Though most have had only a modest impact on state collections, a handful of major decreases together have produced a significant shift. The biggest single change was signed into law last summer and will lower tax collections by roughly $1 billion each year starting with this spring's income tax returns.

In preparing this brief, the Forum has drawn heavily on reports and data from the Legislative Fiscal Bureau and state Department of Revenue.

In the state's current 2022 fiscal year ending on June 30, tax collections are estimated to be nearly $2.7 billion lower than they otherwise would have been without the 82 income tax changes enacted since January 2011, according to figures from the Legislative Fiscal Bureau (LFB). To put that in perspective, that would be enough revenue 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 $13.09 billion lower than they otherwise would have been.

Wisconsin's income tax is the single largest tax at the state level and collections rose rapidly last year. Wisconsin's state government also relies more heavily on income taxes than most other states to fund public services. In light of the tax's importance here and the magnitude of recent changes, we examine in this report decreases and trends over the past generation and particularly over the past decade. Our review looks both at the nature of those changes and their collective impact on taxpayers overall and at various income levels.

Data from the state Department of Revenue (DOR) show that between 1980 and 2020, average tax rates rose for the bottom 20% of Wisconsin tax filers (those making less than $8,460 in state Adjusted Gross Income, or AGI, in 2020) while falling for all other income groups, particularly those at the very upper end. Looking at the period from 2008 to 2020 with a more sophisticated analysis shows the same general trend, though it also makes clear that as a group the lowest 20% still receive more in state credit payments than they owe in taxes. Readers also may wonder how so many Wisconsin filers could have such low incomes – the answer is that state AGI excludes many sources of income (see box).

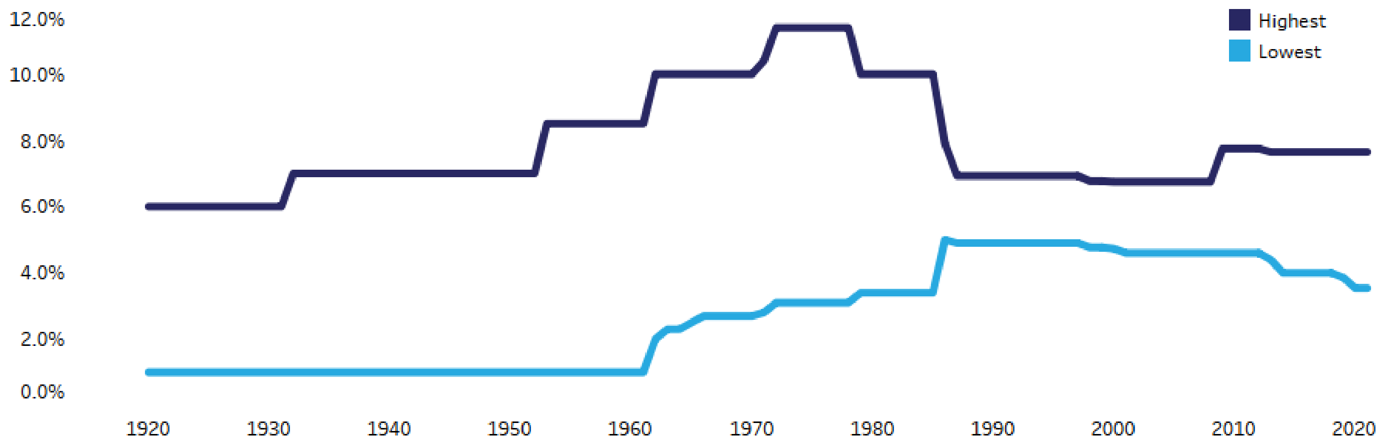
State Adjusted Gross Income (AGI)

Wisconsin income taxes are computed using the state's definition of adjusted gross income. Wisconsin AGI starts with federal AGI and then makes certain changes such as excluding several sources of income, including Social Security benefits, unemployment insurance payments to low-income recipients, and 30% of most capital gains. Filers subtract the state standard deduction and their personal exemptions from AGI to arrive at their taxable income.

The unprecedented rise in state tax collections in recent months has already led to debate about how to use the

Figure 1: Marginal Rates in Wisconsin Change Over Time

Top and bottom marginal tax rates in Wisconsin, 1911-2021



Sources: Legislative Fiscal Bureau

surplus, with proposals ranging from increasing school funding to further reducing or eliminating the state income tax. We hope this discussion of the income tax changes that have already occurred provides helpful context for those discussions.

HISTORY OF WISCONSIN'S INCOME TAX

In 1911, Wisconsin became the first state in the nation to adopt an income tax on both individuals and corporations that worked effectively. The move occurred as part of a broader series of tax changes that also eliminated property taxes on intangible assets such as stocks, household goods, and farm equipment.

As described by the LFB, the individual income tax in the state began with 13 income brackets – each with their own tax rate – and expanded to as many as 16 from 1962 to 1964. Their number has gradually been reduced since then and now sits at four income brackets today. Marginal tax rates in those brackets range from 3.54% – for taxable income of up to $16,160 for married couples filing a joint tax return – to 7.65% for taxable income above $355,910 for couples

Table 1: Wisconsin's 2021 Income Tax Brackets and Rates

Rate	Single Filers	Married, Filing Jointly	Married, Filing Separately
3.54%	$0-$12,120	$0-$16,160	$0-$8,080
4.65%	$12,121-$24,250	$16,161-$32,330	$8,081-$16,160
5.30%	$24,251-$266,930	$32,331-$355,910	$16,161-$177,960
7.65%	$266,931+	$355,911+	$177,961+

Source: Wisconsin Department of Revenue

(see Table 1). The various rates apply only to income that is covered by the applicable bracket, which means most taxpayers have multiple rates applied to different levels of their income.

As Figure 1 shows, the range between the state's highest and lowest income tax rates generally has decreased in recent decades – from a gap of 8.3 percentage points from 1972 to 1978 to a difference of 4.11 points today. This matters because it gives a partial sense – though not a complete one – of the progressivity of the state's income tax and how it has changed over time. A more progressive income tax is one in which taxpayers with greater incomes are taxed at a higher rate.

Notably, the rates in the highest and lowest brackets in Wisconsin have diverged somewhat in recent years, with the gap growing by nearly two additional percentage points between 2008 and 2021. However, this is not the only factor that goes into determining progressivity. Other contributors include which sources of income are considered taxable, the approach used for the standard deduction applied to taxpayers' income, and the size of exemptions and credits given to taxpayers with low incomes, children, and other special circumstances.

Some of these factors such as the standard deduction for all taxpayers and the Earned Income Tax Credit (EITC) for low income workers with children currently phase out for tax filers as their incomes rise above certain levels. That means that tax filers can encounter even higher effective tax rates as their incomes rise because they are losing deductions or credits on top of paying higher nominal income tax rates.

We do not have the space to discuss all these factors or the changes in them over the years. However, for a more sophisticated approach than simply looking at nominal tax rates, we look later at the average tax rates that apply to taxpayers at different income levels after subtracting the various deductions, exemptions, and credits that apply to them.

The state also has a corporate income and franchise tax – rates for the tax formerly rose progressively along with corporate income but the 1981-83 budget created a flat tax rate of 7.9% on all income that has remained in place to the present. In past decades, the state also at times instituted additional taxes (known as surtaxes) on corporations but has not done so in some time. The tax is imposed on entities that are taxed at the corporate level (known as C corporations) as opposed to entities that pass their profits on to shareholders to be taxed at the individual level (S corporations, partnerships, and limited liability companies).

This tax has seen a number of changes over the decades affecting which corporations and what share of their income are subject to the tax along with changes to deductions and credits. Those modifications, though important, go beyond the scope of this brief.

THE STATE INCOME TAX IN RECENT YEARS

Both individual and corporate income taxes have seen substantial changes since 2009 that reflect both political shifts in the state and actions by Congress and the federal courts. Income tax legislation has generally corresponded to the policy priorities and ideologies of the party that held political control of the state Capitol, which was first entirely Democratic, then Republican-controlled, and for now divided between the two parties. The first period was marked by net increases in income taxes relative to prior law and the next two, which we discuss together, have resulted in net decreases compared to what taxes otherwise would have been.

2009 to 2011

From January 2009 to January 2011, Democratic Gov. Jim Doyle and lawmakers from his party who controlled the Legislature raised taxes – with an emphasis on doing so for those at higher income levels – to help eliminate a potential state budget shortfall. The increases included a new top individual income tax bracket of 7.75% on married couples filing jointly with taxable income above $300,000. That represented a one-percentage point increase in the marginal rate compared to the next highest bracket and was essentially the largest increase on income within any bracket (in this case a new one) since 1986. This top marginal tax rate – now slightly reduced to 7.65% – is the ninth-highest in the country, according to the Tax Foundation. In addition, they increased the share of long-term capital gains on most assets that were taxable, from 40% to 70%.

The combined effect of the two changes and several other smaller ones was to increase state tax collections in fiscal 2010 by an estimated $396.5 million over what they otherwise would have been, according to LFB. Republican actions later pared back the effect of the higher upper-income tax rate and higher level of capital gains taxes, but those two measures largely remain in place. Though no estimates are available on how much these provisions have increased tax collections since 2010, the cumulative total is quite large. These increases on upper-income taxpayers partly offset the larger tax cuts for those earners that have followed.

2011 to 2021

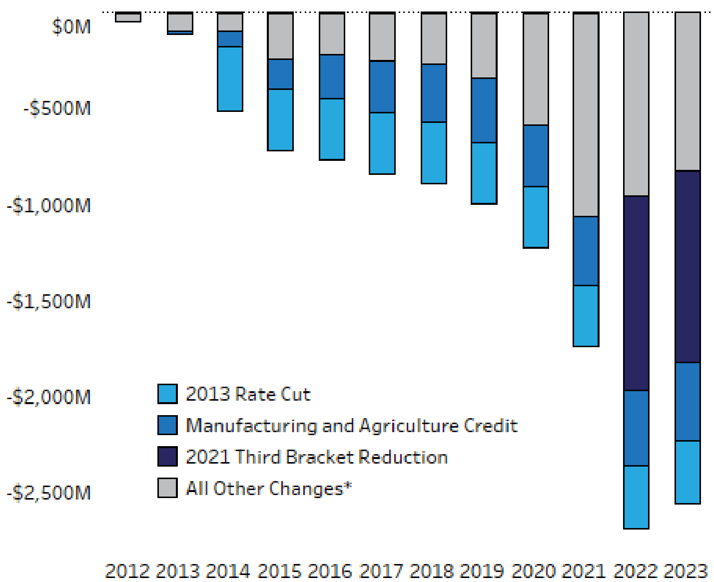
More complete data are available from the LFB for income tax changes between 2011 and 2021, a period in which the Legislature was controlled by the GOP. A Republican governor, Scott Walker, served from January 2011 to January 2019 and a Democrat, Tony Evers, has served in that role from 2019 to the present.

Since 2011, those leaders have taken scores of legislative actions that raised or lowered income tax collections. Twenty-one of those actions have increased total tax collections by a combined $1.0 billion over the entire 12-year span, according to LFB data.

Sixty law changes have lowered collections, generally by small amounts. Three large actions, however, reduced revenues by $8.09 billion over the period, accounting for 61.8% of the total net impact of the changes since July 2011. The three changes were a credit passed in 2011 to eliminate most tax on income from manufacturing and agricultural operations in the state; cuts to tax rates and changes to tax brackets made in 2013; and a decrease to the tax rate in the state's third income tax bracket that was approved last summer.

Figure 2: Rate Cuts, Credit Majority of Income Tax Changes

Effect of changes to state income tax since 2011, 2012-2023



Source: Wisconsin Legislative Fiscal Bureau. *Includes 79 different legislative changes.

Figure 2 shows the net impact of all 82 of these changes – both the increases and decreases – to individual and corporate income taxes. Together they lowered tax collections by an estimated $5.23 billion over what they otherwise would have been during the 2021-23 budget alone.

The figures from LFB represent forward-looking projections of the effect of the changes that were prepared at the time the legislation was passed. These estimates generally have not been updated to reflect actual collections or economic growth in the years since 2011 and they do not attempt to account for any dynamic effects of the tax changes to the economy such as increased growth. The numbers also reflect only state changes that directly affected how much taxpayers owed; consequently, they do not include the effect of enforcement or other state changes or federal actions that caused state tax collections to rise or fall. With that said, the estimates represent the best available data on the fiscal effect of these measures.

In the first major change, Walker and lawmakers in 2011 approved the Manufacturing and Agriculture Credit, which lowered both corporate and individual income taxes on the profits from those industries. Created as part of the 2011-13 state budget, the credit equals a percentage of agricultural and manufacturing income and was phased in over four years, starting at 1.875% in tax year 2013 and rising to 7.5% in 2016. Depending on the top individual income or corporate tax rate that applies to a filer, the credit covers most or all of the filer's liability from those activities.

As the Department of Revenue makes clear, this credit can be claimed by corporations, certain other business entities, and individuals so long as their manufacturing or agricultural property are owned or rented and used in Wisconsin. The credit has no dollar limit, and can be applied to income generated from anything produced on land assessed to be for manufacturing or agriculture.

Initially, the credit was projected to reduce state income tax collections by $128.7 million each year after being fully phased in. In reality, LFB estimates that from 2017 through 2023, the credit has lowered collections by an average of $341.0 million each year. Including phase-in years, the MAC has reduced net state income taxes by almost $2.9 billion since 2013.

In the second major change, Walker and lawmakers in the 2013-15 budget lowered the income tax rates in each of the state's then five brackets by between 0.10 and 0.31 percentage points. In addition, they collapsed the fourth tax bracket into the third, which meant a decrease of 0.48 points for the rate applied to income in that bracket. The LFB estimates these tax reductions resulted in $327.8 million less collected in fiscal year 2014 and $320.1 million less in each year since, for a total drop in collections of more than $3.2 billion.

The third major change was approved by lawmakers and Evers this past July as part of the 2021-23 budget. Lawmakers on the Joint Finance Committee introduced the provision, which lowered the rate for the third tax bracket from 6.27% to 5.30%.

The nearly one-percentage-point reduction is the largest single-year drop in a bracket's rate since the late 1980s and has a huge impact, as the third bracket applies to a wide range of income for state taxpayers. On returns being filed this spring, it means a 15.5% decrease in the rate applied to the taxable income falling between $24,250 and $266,931 for individuals and the income between $32,330 and $355,911 for married couples filing jointly.

This major change applied retroactively to all income earned during the 2021 calendar year. LFB estimates the decrease in the third bracket rate will reduce income tax revenues by just over $1 billion in fiscal year 2022 and just under that amount in fiscal year 2023. In pure dollar terms, this makes the measure the biggest income tax change in decades.

Together, the manufacturing and agriculture credit, 2013 rate cut and bracket collapse, and 2021 rate cut have lowered estimated income tax collections from July 2011 through June 2023 by nearly $8.1 billion. All the other law changes combined – including those that increased income tax collections – account for a net drop of just over $5.0 billion during the same period for a combined total of $13.09 billion.

A big part of the remaining net income tax decreases also come from three other notable changes – a 2013 reduction in the tax rate on the bottom income bracket from 4.4% to 4%, a cut to the rate for the second income bracket from 5.84% to 5.21% starting in 2019, and a series of changes in recent years that essentially funded further cuts to income tax rates in the bottom two brackets through increases in sales tax revenues collected by online and other out of state retailers. The changes in these three areas lowered taxes in 2022 by $505.5 million over what they would have otherwise been and from 2012 to 2023 by $2.36 billion.

The cumulative total of net tax decreases since 2011 would be smaller if the available data included the tax increases passed in 2009 that have remained in effect.

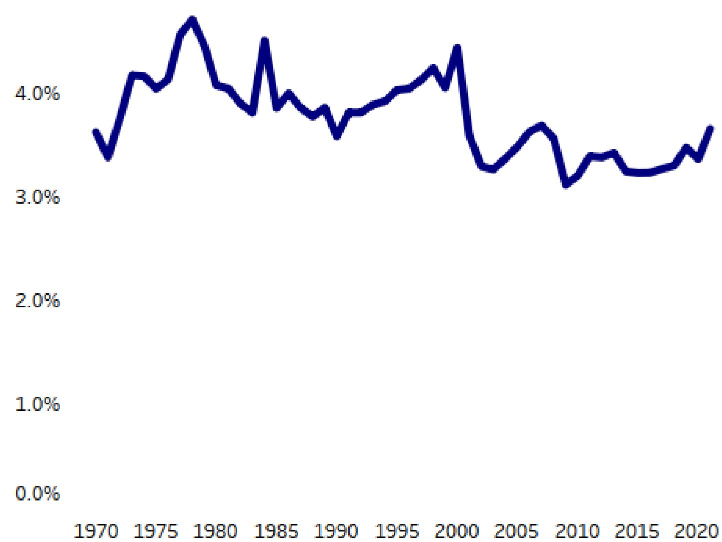
INCOME TAX BURDENS DROP

Over the past half century, the share of the state's collective income that goes to income taxes has fluctuated, but it has generally been on a downward trend since the late 1990s. Figure 3 shows that decline using data on state tax revenues compiled by the Wisconsin Policy Forum (and previously by one of our predecessor organizations, the Wisconsin Taxpayers Alliance). For a better comparison over time, the figures show combined individual and corporate income tax collections since the share of income taxed at the corporate level has changed over the years.

The tax collections are shown by state fiscal year as a share of personal income in Wisconsin (which includes wages and salaries, interest and dividend income, and transfer receipts to individuals from the government). Personal income measures all income in the state and is separate – and about two-thirds larger at present – than total Wisconsin AGI figures on tax returns, since those exclude many types income that are not taxed by the state.

Figure 3: WI Income Tax Burden Has Fallen Since 2000

Individual and corporate income taxes as a share of personal income, 1970-2021



Sources: WI Department of Administration & U.S. Bureau of Economic Analysis

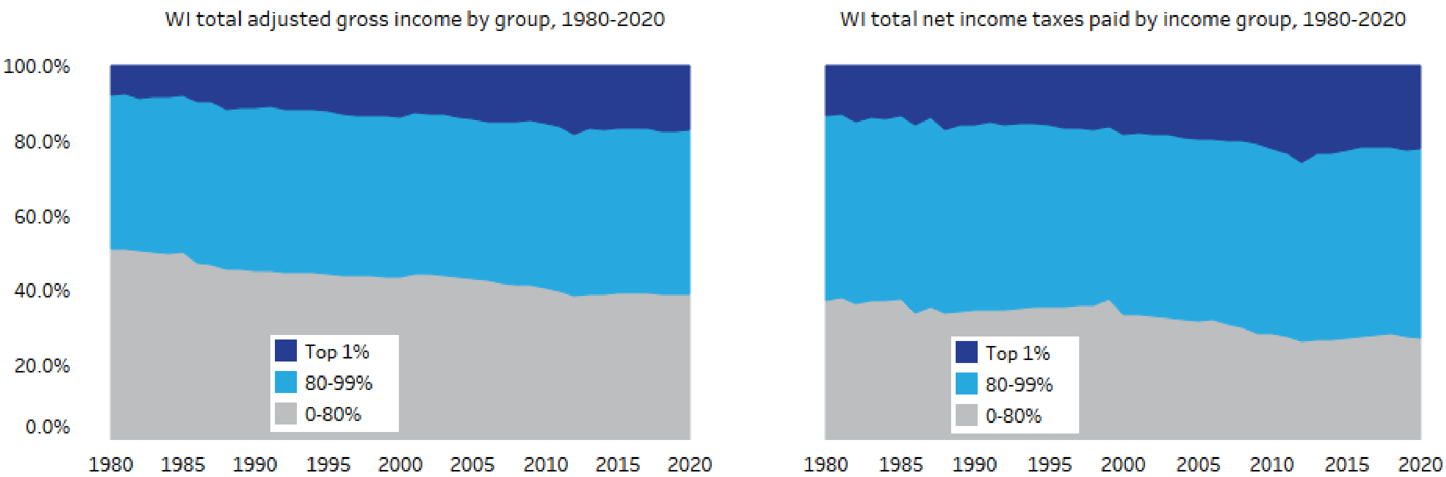
The share of personal income going to income taxes in Wisconsin – also known as the income tax burden – has dropped from 4.44% in fiscal 2000 to 3.65% in 2021. The income tax burden will likely drop further in 2022 as the effects of the $1 billion cut to the rate for the third income tax bracket are felt.

A number of factors influence the tax burden figures, including the business cycle (the burden tends to decline during recessions along with corporate profits and workers' incomes), increases or decreases to state taxes, and changes to federal policies. For example, the income tax burden rose during the 1990s both because of the economic expansion at the time as well as the fact that state tax brackets were not indexed to inflation during those years, which gradually pushed taxpayers into higher brackets with higher marginal tax rates.

In national rankings, Wisconsin's income tax burden has fallen somewhat over the years but remains relatively high. U.S. Census Bureau data that are similar to the Forum's state-level figures show in 2019, Wisconsin's individual income tax ranked 13th-highest as a share of personal income and its corporate income tax ranked 12th-highest. The available data do not yet capture the effects of the large decrease to the rate in Wisconsin's third income tax bracket.

The relatively high ranking reflects a number of factors, including lower per capita income levels in this state and the fact that many states are able to maintain lower

Figure 4: Growing Income, Taxes Paid by High Earners



Source: Wisconsin Department of Revenue

income tax rates because they rely more heavily on sales taxes than Wisconsin. Of all state and local tax revenues in Wisconsin in 2019, 28.6% came from the individual income tax, which was 13th highest in the country and well above the national average of 24.1%. Eight states do not impose an individual income tax (one of those, Washington, does tax capital gains).

This greater reliance on the income tax matters since it makes it more challenging to cut or eliminate it in Wisconsin. New Mexico, for example, could cut its income tax with less disruption to its overall system since it receives only 14.9% of its total state and local tax revenue from the income tax.

While these state and national figures showing an overall decline in Wisconsin's income tax burden are informative, they are limited since they show only the average paid by all taxpayers and businesses. The reality is that taxpayers have a very wide range of incomes as well as a large range of tax liabilities, so the average tax burden tells us only so much.

MORE INCOME – AND TAX LIABILITY – NOW GOES TO TOP 1%

To understand how both income and taxes vary across the state's tax filers, we look at DOR data from tax returns filed by individuals and couples each year. DOR provided data from 1980 to 2020 on how state AGI and income tax liabilities are distributed across all state tax returns, which totaled more than 3.1 million in the most recent year. The data cover only the individual income tax – not the corporate tax – but do include business income from entities that pass profits on to owners to be taxed at the individual level.

As seen in Figure 4, incomes have risen much more rapidly for taxpayers with the highest AGI than those with the lowest. As noted earlier, AGI does not include all forms of taxable income for taxpayers and the state has changed its definition over time, so it does not fully capture how the true incomes of different classes of Wisconsin residents are changing. Still, these AGI figures provide helpful context, particularly for understanding state income tax liabilities.

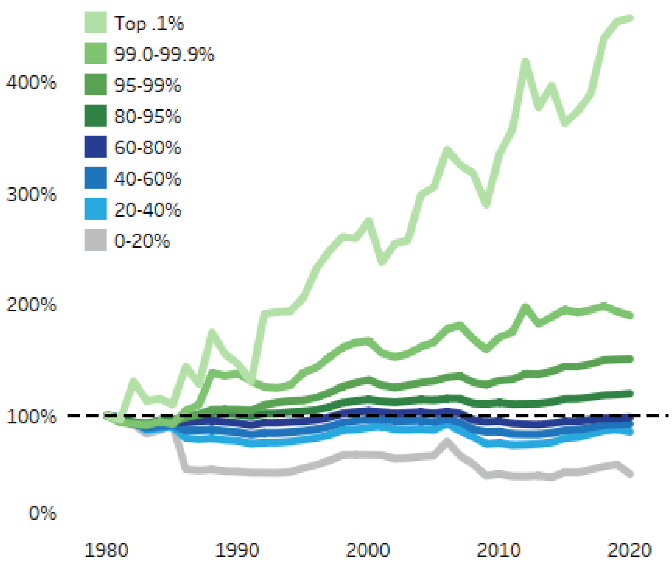
In 1980, state tax returns filed by the top 1% of taxpayers in terms of highest incomes accounted for 7.9% of all AGI in Wisconsin. By 2020, the top 1% accounted for 17.3%, or more than twice as much. In 2020, the top 1% included taxpayers with AGI of more than $386,050.

In 1980, the bottom 80% of taxpayers as defined by income accounted for 51.1% of all AGI in state filings. By 2020, their share of AGI had fallen to 39%. In 2020, the bottom 80% of taxpayers included tax filers with AGI of up to $87,400.

This trend reveals that incomes have risen much more quickly for top earners in Wisconsin. Between 1980 and 2020, the average inflation-adjusted AGI for the top 0.1% of taxpayers in Wisconsin more than quadrupled (see Figure 5 on page 7). Over the same period, the average inflation-adjusted AGI for the bottom 20% of taxpayers fell by more than half.

Figure 5: Only Top Earners See Real Income Growth

Average inflation-adjusted Wisconsin AGI compared to 1980 AGI, by income group, 1980-2020



Source: Wisconsin Department of Revenue

Readers should note that AGI can change both because a taxpayer earns more or less in actual income or because the state changes whether that income is included in Wisconsin AGI and is potentially subject to state taxes. For example, when the state increased the taxable share of most long-term capital gains from 40% to 70% in 2009, that served to increase AGI more for high-income taxpayers.

Not surprisingly, the share of taxes paid by different income groups moved in the same direction as their share of potentially taxable income. In 1980, the bottom 80% of taxpayers in Wisconsin owed 37.2% of all state income taxes. By 2020, their share decreased to 27%. Conversely, in 1980, the top 1% of taxpayers in Wisconsin owed 13.5% of all state income taxes. By 2020, their share increased to 22.2%.

In both 1980 and 2020, the share of taxes owed by the top 1% was larger than their share of total income – a fact that reflects the progressive nature of the state income tax. At the same time, the increase in the share of taxes owed by the top 1% was smaller than the increase in their share of AGI. That reflects a variety of changes in the state's tax system and economy, but it is particularly relevant that the top marginal tax rate in state law of 10% in 1980 was much higher than the top rate of 7.65% in 2020. Meanwhile, the bottom rate of 3.4% in 1980 was much closer to the bottom rate of 3.54% today.

AVERAGE TAX RATES FALL FOR MOST - BUT NOT ALL - TAXPAYERS

In short, individual income tax liabilities for the top 1% did not grow as quickly as might be expected because average tax rates have been falling for most Wisconsinites for decades and particularly those with the highest incomes. That can happen for a variety of reasons, including changes to the tax rates or income cutoffs for various tax brackets, deductions or exemptions (which lower a filer's taxable income), or credits (which lower a filer's actual taxes owed).

Almost every income group in Wisconsin has seen its average tax rate fall since 1980. The average tax rate is calculated by taking the taxes owed by all the taxpayers in a particular income class – say the bottom 20% of earners – and dividing it by the total AGI of all the taxpayers in that group.

The data provided by DOR show that in 1980, the average tax rate for the top 1% of income taxpayers in Wisconsin was 7.9%. By 2020, the average tax rate for the group had fallen to 5.5%, a reduction of 30.6%.

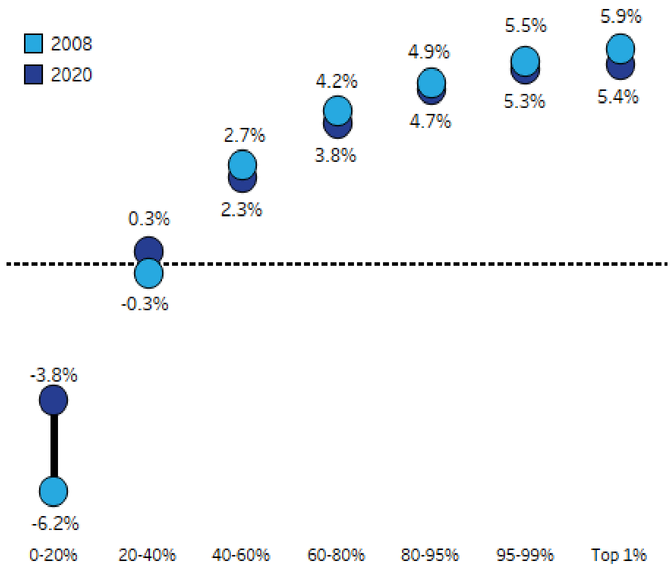
The average tax rate for the middle 20% of Wisconsin taxpayers – those with 2020 AGI of between about $27,070 and $47,860 – also fell over the period. In 1980, the average tax rate for this group was 3.1% and by 2020 it had fallen to 2.5%, a reduction of 20%.

Just one income group we examined did not see a decrease in their average tax rate over this long time period. For taxpayers in the bottom 20%, their average tax rate rose from 0.2% in 1980 to 0.5% in 2020, nearly doubling after accounting for rounding error. This group includes taxpayers with AGI of zero or less than zero.

For all of these changes, it is worth noting that the shift in the average tax rate can reflect both state policies and economic factors. In other words, one reason why the average tax rate rose over the past decade for the bottom 20% of Wisconsin taxpayers was reductions in the state Earned Income Tax Credit (EITC) and Homestead Tax Credit for low-income tax filers that were approved by Walker and lawmakers in 2011 and took effect the following year. Another likely reason was growth in incomes during the recovery from the Great Recession, which pushed some low-income workers into higher tax brackets.

Figure 6: Rates Rise for Lowest Income Taxpayers

Change in average tax rate* from 2008 to 2020, by income bracket



Source: Wisconsin Department of Revenue. *Negative tax rates reflect the effect of refundable tax credits, such as the Homestead Tax Credit or EITC.

In addition, an important caveat is the available average tax rate data going back to 1980 do not account for refundable tax credits such as the EITC and Homestead credits, which the state actually can pay out to taxpayers with no income tax liability. These payments mainly go to low-income filers, though there are also some refundable business tax credits that could be paid to those at upper income levels. Since the tax filer is receiving rather than making a tax payment, the credits effectively give the filer a negative tax rate.

By benefiting low-income earners, the EITC and Homestead credit make the overall tax system more progressive. At the same time, however, these credits and their effect have decreased over time. In fiscal 2020, the state spent $159.6 million on the EITC and Homestead Credits combined, down 26.7% from $217.7 million in fiscal 2008 even before adjusting for inflation, according to LFB figures.

In Figure 6, we show recalculated average tax rates by income category for the 2008 to 2020 timeframe that include the impacts of refundable credits. Because of credit payments, the bottom 20% of taxpayers by AGI had a tax rate of -6.2% in 2008, meaning they as a group received more in state payments than they owed in taxes. By 2020, their tax rate was -3.8% - the group was still receiving net state payments but they were a smaller share of the group's total income. The next lowest 20% of taxpayers went from a tax rate of -0.3% – meaning the group received on average modest state payments – to a rate of 0.3% that represented a small tax liability for the group.

The recalculated rates changed little for the upper earners. The average tax rate for the top 1% of taxpayers fell from 5.9% in 2008 to 5.4% in 2020. The decrease in the average rate would have been larger except for the 2009 creation of the highest income tax bracket and rate and the increase in capital gains taxes.

In summary, Wisconsin's income tax remains relatively progressive, with the highest income group in our review taxed at an average rate of 5.4% that is 9.2 percentage points higher greater than the average rate of -3.8% for the lowest income group. However, the system has become less progressive over time, given that in 2008 the average tax rate on the highest income group was 12.1 percentage points higher.

The recent large cut in the tax rate for the third income bracket should continue this basic trend since it will deliver its benefits to middle and upper-income taxpayers. LFB estimates prepared during the budget process showed that 98.9% of the total decrease was expected to go to tax filers with AGI of more than $40,000 and 74% of the total to filers with AGI of more than $100,000.

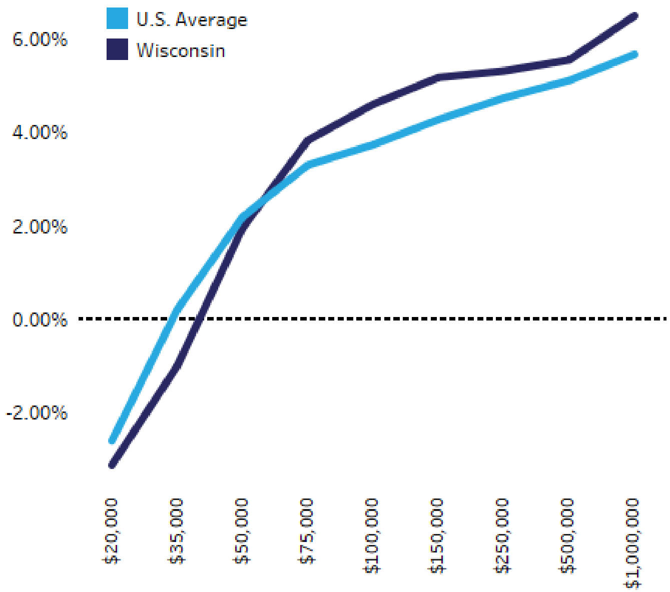
NATIONAL COMPARISONS

Though Wisconsin's income tax has become less progressive over time, the Forum noted in January that as of 2018 the state retained a system that is more progressive than the national average. An annual study by the Minnesota Center for Fiscal Excellence shows Wisconsin taxpayers at income levels of up to $50,000 a year for married couples filing jointly have effective tax rates that are below the U.S. average for states, while those with incomes of $75,000 or greater pay taxes at higher-than-average effective rates.

The Minnesota Center study is particularly useful since it includes more types of income than just those that are subject to taxes in each state, which allows for a more complete picture of how filers' taxes compare to their true income. This approach provides an effective tax rate for each tax filer and as with our previous examples shows some low-income filers are subject to negative tax rates.

Figure 7: WI Income Tax Less Favorable for Middle Class

Effective tax rate, married couples filing jointly by income



Source: Minnesota Center for Fiscal Excellence

The Minnesota Center study shows Wisconsin's effective tax rate was below the national average for those with the lowest incomes and above the national average for couples making $75,000 or more (see Figure 7). In 2018, a Wisconsin married couple filing jointly with $20,000 in income paid no state income tax, and actually received a payment of $629 from the state due to the earned income tax credit. That ranked 31st highest among states in terms of the taxes owed (or payment received).

A similar couple earning $50,000 paid $975 in taxes – roughly 1.95% of income. That ranked 25th-highest nationally. The percentage of income paid as taxes continued to rise for similar couples earning more, with a couple making $100,000 paying 4.61% of their income in taxes, or $4,613. That was fifth highest nationally. The same broad trend is true for single filers in Wisconsin, who pay higher than average effective tax rates at incomes at or above $35,000 but lower rates at incomes below that.

The recently approved cut to Wisconsin's rate for the third income tax bracket could bring effective tax rates for those making $100,000 to $150,000 a year more in line with national averages. That is because, as we noted earlier, the tax cut will deliver some of its largest benefits to taxpayers at those income levels.

INSIGHTS AND CONCLUSION

As renewed calls are made for further reducing Wisconsin's income tax, a review of the substantial changes that have already been made over the past generation and particularly the past decade provides useful context. Our analysis finds:

- The income tax burden has fallen for Wisconsin taxpayers as a group but remains relatively high compared to other states. This high ranking reflects, in part, Wisconsin's heavier reliance on the income tax to fund public services.
- Compared to 40 years ago, taxpayers at upper income levels now account for a much larger share of total adjusted gross income in Wisconsin as well as a larger share of the total taxes paid. Their share of the total taxes paid, however, has not risen as much as their share of total AGI.
- Average tax rates have fallen for Wisconsinites at most AGI levels, and particularly for top earners. They have risen for the tax filers within the bottom 20% by AGI, though as a group those filers are receiving more in state credit payments than they pay in taxes.
- Wisconsin's income tax has become less progressive over time but remains relatively progressive compared to other states.

Whether this current state of affairs supports the calls for further income tax cuts – or at least targeted cuts for taxpayers at specific income levels – is in the eye of the beholder. The huge growth in state reserves and tax revenues last year certainly provides state officials with a rare opportunity for pursuing either new cuts, lower debt levels and greater financial stability, or additional spending on public services and infrastructure.

Additional context will be crucial for such a decision, including the investment needs and priorities of state and local government and deliberation on the appropriate level of state reserves going forward. A broader discussion about the pros and cons of each of the major taxes in the state (income, sales, and property) and whether Wisconsin's current tax system provides the right overall approach for the state's economy and citizens also would be beneficial before major changes are considered to income taxes alone.

For example, in previous research on the city of Milwaukee's revenue structure, we pointed to a paper published by the National Conference of State Legislatures that emphasized reliability, balance, simplicity, and equity as the foremost principles of a high-quality revenue system. State officials may also wish to consider what other goals – from boosting economic growth to minimizing inequality – they consider to be most important for state taxes overall.

In the end, while ideology will play a critical role in sorting out these issues, potential decisions should be informed by data-driven reflection on previous changes and consideration of the overriding principles Wisconsin leaders would like to see embodied in our state's tax system in the future.