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Wisconsin's Highest Earners at Center of Debate on Income Tax Changes

Plans from Evers, LeMahieu start with different views on how to achieve fairness and spur growth

While starkly different in most details, competing plans to overhaul Wisconsin's income tax code offered by Gov. Tony Evers and State Senate Majority Leader Devin LeMahieu share one common thread: they would sharply change how the state taxes its highest earners.

LeMahieu's proposal would establish a single "flat" income tax rate of 3.25% and lower income taxes for all filers who owe them. This approach would deliver the greatest benefits to higher-income earners, who pay higher rates on their additional taxable income as they progress through each of the state's four brackets. According to a Forum analysis based on projections from the state Department of Revenue and nonpartisan Legislative Fiscal Bureau, once fully phased in by tax year 2026, those with state adjusted gross income (AGI) of more than $1 million would receive an average tax cut of $107,876.

Evers' proposal would target low and middle-income earners with various new tax credits or increases in existing credits while raising taxes on manufacturing profits and capital gains, which would mostly affect upper-income earners. Together, those changes would produce an average tax increase of $39,586 per taxpayer for Wisconsinites with AGI of $1 million or more. Meanwhile, it would lower taxes, on average, for those with annual AGI up to $200,000.

Wisconsin was the first state to successfully implement an income tax, and it remains a larger part of our state's revenue mix – and tax burden – than many other states. Lawmakers and Evers have already cut income taxes by about $1 billion a year in the current state budget by lowering the rate for the third tax bracket. Currently, Wisconsin's top income tax rate is second highest among its neighbors and its bottom rate is the lowest – the Forum's analysis included a simple look at those rates as well as a more sophisticated analysis including factors such as credits and deductions.

With Wisconsin facing its largest budget surplus on record, it appears likely that the upcoming 2023-25 state budget will bring big tax changes. GOP legislators and Evers, a Democrat, both have proposed income tax cuts, but differ on who should receive the bulk of them and whether some taxes should still rise. The dueling proposals also reflect different philosophies about how to bolster Wisconsin's competitiveness with other states in measures of economic strength and quality of life.

"The state's massive surplus provides great potential for change, but also opens up the possibility of overreach," the report finds.

Looking at the details

While raising taxes on those with the highest incomes, Evers' proposal targets nearly all of its tax relief to those who report an AGI of less than $175,000 a year (for married joint filers). It would increase tax credits for low and middle-income taxpayers to either lower their tax liability or in some cases increase credit payments to those who currently owe no income taxes.

The largest of these would be the creation of a new Family and Individual Reinvestment Credit of 10% or $100, whichever is greater. For married couples filing jointly, the credit would fully apply to those with AGI of less than $150,000 and phase out for those making up to $175,000. As a non-refundable credit, it would go only to those filers who owe income taxes.

LeMahieu's plan would eliminate the state's current series of income tax rates for four separate income brackets that increase along with tax filers' incomes, ranging from 3.54% to 7.65%. It would replace these with a single flat rate of 3.25% for all taxable income but would keep all of the current state exemptions, deductions, and credits.

Impact on tax collections

The LeMahieu plan would have a more substantial effect on overall state tax collections. It would decrease individual income tax collections by a projected $2.11 billion in the state's 2024 fiscal year with the total reduction growing to $5.06 billion in 2027 and subsequent years.

The Evers plan would increase state tax revenues by $257.3 million over the next two years. However, it would also increase expenditures in the form of refundable income tax credit payments to tax filers by more than $300 million, which would produce a net cost to the state.

The state's income tax has become less progressive over the past decade, though for now the state's system remains more progressive than the average state income tax nationally. The two plans would determine whether the state accelerated that trend or reversed course.

A broader debate

The proposals reflect opposing views on how Wisconsin can better compete to grow its population and economy. Some advocate for lowering its top marginal tax rate of 7.65% as a means to enhance Wisconsin's ability to compete with other states to attract and retain high earning residents. Wisconsin's top marginal rate ranks as the eighth-highest of any state in the country. Marginal tax rates alone provide only a crude sense of how tax systems affect taxpayers of varying income levels, but more sophisticated analyses also show Wisconsin has higher than average effective rates on the highest earners.

Others note that additional taxes collected by state and local governments, such as on sales and property, are more regressive and that an income tax with many progressive features makes taxation more fair based on one's ability to pay. Since Wisconsin relies on the income tax more than other states, large cuts to its revenue also could significantly affect its ability to fund K-12 and higher education, health care, public safety, aid to local governments, and property tax relief.

Ultimately, the report suggests that the debate over income tax cuts cannot be separated from the larger discussion on goals for other state and local taxes, or from state and local spending targets.

Click here to read the full report.

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