*Fiscal Facts by Wisconsin Policy Forum*

**Income tax changes cause average rates to fall, but not for all**

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.

Meanwhile, large income tax cuts enacted last summer are likely to accentuate the trend of falling rates for those at middle- and higher-income levels. 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.

Over time, especially 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 compared to prior law. 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.

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 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%.

A more complete set of DOR data for 2008 through 2020 accounts for refundable tax credits that can be paid to filers with no income tax liability. It makes clear that while the bottom 20% as a whole get more in credits than they owe in taxes, those payments have declined over time. Meanwhile, the share of taxes paid by high-income taxpayers increased. However, for upper-income taxpayers, their share of the total taxes paid has not risen as much as their share of total AGI.

Over four decades, Wisconsin’s overall income tax burden has fallen, but the state income tax has become less progressive over time. (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.

Now, huge growth in tax revenues 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, it would beneficial to undertake 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. 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.

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