



## Legislative Fiscal Bureau

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February 27, 2017

TO: Representative Chris Taylor  
Room 306 West

FROM: Rick Olin, Fiscal Analyst

SUBJECT: Individual Income Tax: Personal Exemption Modification Proposal

At your request, this memorandum provides information on your proposal to modify the personal exemption amount under the state's individual income tax.

### Current Law

The amount of income that is subject to the state individual income tax is computed by subtracting the sliding scale standard deduction and personal exemptions from Wisconsin adjusted gross income (AGI). The sliding scale standard deduction is based on formulas that vary by filing status and that phase out the deduction over certain AGI thresholds. A \$700 personal exemption is provided for each taxpayer, taxpayer's spouse, and for each individual claimed as a dependent under federal law. An additional \$250 exemption is provided for each taxpayer who has reached the age of 65 before the end of the tax year, and two exemptions are provided if both the taxpayer and the taxpayer's spouse are 65 at the end of the year. Thus for each taxpayer age 65 or over, the total exemption is \$950.

In tax year 2017, married taxpayers filing a joint return whose AGI is less than \$21,590 will receive the maximum standard deduction of \$19,210, and married-joint filers with AGI above \$118,718 will not receive any standard deduction. The standard deduction will phase out for married-joint filers with AGI between these two income levels at a rate of 19.778%. The phase-out percentage causes the maximum standard deduction to be reduced by about 20 cents for each dollar of income over \$21,590. For example, the maximum standard deduction would be reduced by \$198 to \$19,012 for taxpayers with income exceeding the threshold by \$1,000 (\$22,590 in AGI). The deduction is structured the same for each filing type but with different calculation factors.

## Proposal

Your proposal would extend a higher personal exemption than provided under current law, but the higher exemption would be limited to taxpayers with AGI below a specified threshold. For taxpayers with AGIs below the threshold, the exemption would increase from \$700 to \$8,260. For taxpayers with AGIs above the threshold, the higher exemption amount would phase down until AGI exceeds a second threshold. Taxpayers with AGIs above the second threshold would continue to receive an exemption of \$700 for each eligible person. The higher exemption would be limited to the tax filer. Therefore, married-joint filers would be eligible to claim two exemptions at the higher exemption amount, while other filers would be eligible to claim a single higher exemption. The exemption amount for each dependent would continue to equal \$700, and the additional exemption for taxpayers 65 years of age or older would remain unchanged at \$250.

Under your proposal, the personal exemption phase-down would be structured similarly to the phase-out mechanism used in calculating the sliding scale standard deduction. For taxpayers with AGIs between the two thresholds, a percentage would be employed to phase down the higher exemption level to \$700, or \$1,400 for married-joint filers. Higher income thresholds would be extended to married joint filers. The following table reports the formula factors by filing type.

### Factors Used to Calculate a Two-Tiered Personal Exemption by Filing Status Under Proposal, Tax Year 2017

	Married <u>Joint</u>	<u>Single</u>	Head of <u>Household</u>	Married <u>Separate</u>
Minimum Exemption	\$1,400	\$700	\$700	\$700
Maximum Exemption	16,520	8,260	8,260	8,260
Phase Down Income	20,000	12,000	14,000	10,000
Maximum Income	100,000	60,000	70,000	50,000
Phase-Down Percent	18.90%	15.75%	13.50%	18.90%

Based on a simulation provided by the Department of Revenue for tax year 2017, the proposed change to the personal exemption would decrease state individual income tax collections by an estimated \$391.1 million. Your proposal includes two additional provisions that would offset the projected revenue reduction. First, your proposal would create a new tax bracket for filers with taxable incomes above \$500,000 (\$1 million for married-joint filers), and a marginal tax rate of 8.25% would be imposed. Second, your proposal would repeal the manufacturing and agriculture tax credit (MAC), effective in tax year 2017. These two provisions would increase state tax collections by an estimated \$391.1 million (\$299.6 million under the individual income tax and \$91.5 million under the corporate income/franchise tax due to corporate MAC claimants).

Attachment 1 to this memorandum reports the estimated distribution of taxpayers with a tax decrease or a tax increase for tax year 2017. An estimated 1,474,960 taxpayers, or 47.9% of all tax filers, would experience tax decreases averaging \$265 per taxpayer. Almost two-thirds of the total

decrease would occur for taxpayers with a Wisconsin AGI of \$25,000 to \$60,000, and these taxpayers represent 56.8% of all taxpayers with a tax decrease. Among individual income taxpayers, an estimated 22,760, or 0.7% of all tax filers, would experience tax increases totaling \$299.6 million and averaging \$13,162 per taxpayer. Over 80% of the increase would be borne by taxpayers with a Wisconsin AGI of \$1 million or more, although these taxpayers represent only 26.80% percent of all taxpayers with a tax increase. Additionally, some corporate income/franchise taxpayers would experience tax increases totaling an estimated \$91.5 million due to the repeal of the MAC, but they are not included in the attachment.

### **Taxpayer Examples**

Attachment 2 to this memorandum illustrates how the exemption would change and affect taxpayer gross tax liability, as income increases through the phase-down range. Four examples of hypothetical taxpayers are presented for each type of filing status, based on assumptions regarding income and number of children. For each filing type, the proposed exemption amount phases down from an amount just below the maximum exemption to \$700 per person, when the maximum income level is reached. This produces a larger reduction in taxable income for lower-income filers than for higher-income filers. For each filing type, the attachment displays the largest gross tax reductions for taxpayers with incomes at the start of the phase-down range, and the gross tax reductions lessen as income increases through the range. Unless affected by the two provisions increasing taxes, taxpayers with incomes at the maximum income, relative to the phase-down, would experience no change in gross tax liability, and taxpayers with incomes above the maximum income threshold would continue to claim the current \$700 exemption and pay the same amount of tax. Lower-income tax filers who currently do not have a net tax liability and taxpayers who pay the alternative minimum tax would also not be affected.

If you have any questions on this information, please let me know.

RO/sas  
Attachments



## ATTACHMENT 1

### Distribution of Taxpayers with an Income Tax Decrease or Increase Under Proposal

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease					Count of of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Decrease	Percent of Decrease	Average Decrease		
Under \$5,000	13,500	0.92%	\$358,430	0.09%	\$27	500,490	2.7%
5,000 to 10,000	11,590	0.79	849,870	0.22	73	233,670	5.0
10,000 to 15,000	51,640	3.50	4,020,280	1.03	78	192,780	26.8
15,000 to 20,000	108,760	7.37	18,712,530	4.78	172	181,360	60.0
20,000 to 25,000	136,970	9.29	33,046,310	8.45	241	173,510	78.9
25,000 to 30,000	146,730	9.95	41,938,580	10.72	286	167,460	87.6
30,000 to 40,000	285,790	19.38	85,456,020	21.85	299	298,430	95.8
40,000 to 50,000	230,640	15.64	74,423,010	19.03	323	237,170	97.2
50,000 to 60,000	174,300	11.82	50,979,340	13.03	292	183,370	95.1
60,000 to 70,000	91,490	6.20	36,242,840	9.27	396	149,220	61.3
70,000 to 80,000	79,330	5.38	25,591,360	6.54	323	124,620	63.7
80,000 to 90,000	76,400	5.18	14,865,120	3.80	195	105,760	72.2
90,000 to 100,000	67,730	4.59	4,564,980	1.17	67	88,970	76.1
100,000 to 125,000	40	< 0.01	15,200	< 0.01	380	163,340	< 0.1
125,000 to 150,000	10	< 0.01	8,870	< 0.01	887	95,500	< 0.1
150,000 to 200,000	10	< 0.01	8,050	< 0.01	805	87,510	< 0.1
200,000 to 250,000	10	< 0.01	5,110	< 0.01	511	34,960	< 0.1
250,000 to 500,000	10	< 0.01	4,740	< 0.01	474	43,410	< 0.1
500,000 to 1,000,000	10	< 0.01	8,860	< 0.01	886	13,160	< 0.1
1,000,000 and over	0	0.00	0	0.00	N.A.	6,150	0.0
<b>Total</b>	<b>1,474,960</b>	<b>100.00%</b>	<b>\$391,099,500</b>	<b>100.00%</b>	<b>\$265</b>	<b>3,080,840</b>	<b>47.9%</b>

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Increase					Count of of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Increase	Percent of Amount	Average Increase		
Under \$5,000	1,300	5.71%	\$22,690	0.01%	\$17	500,490	0.3%
5,000 to 10,000	910	4.00	65,400	0.02	72	233,670	0.4
10,000 to 15,000	640	2.81	69,070	0.02	108	192,780	0.3
15,000 to 20,000	470	2.07	49,760	0.02	106	181,360	0.3
20,000 to 25,000	450	1.98	75,180	0.03	167	173,510	0.3
25,000 to 30,000	360	1.58	96,670	0.03	269	167,460	0.2
30,000 to 40,000	640	2.81	219,580	0.07	343	298,430	0.2
40,000 to 50,000	770	3.38	343,480	0.11	446	237,170	0.3
50,000 to 60,000	690	3.03	596,790	0.20	865	183,370	0.4
60,000 to 70,000	650	2.86	768,500	0.26	1,182	149,220	0.4
70,000 to 80,000	580	2.55	773,450	0.26	1,334	124,620	0.5
80,000 to 90,000	510	2.24	909,350	0.30	1,783	105,760	0.5
90,000 to 100,000	490	2.15	855,260	0.29	1,745	88,970	0.6
100,000 to 125,000	1,040	4.57	2,383,370	0.80	2,292	163,340	0.6
125,000 to 150,000	720	3.16	1,893,840	0.63	2,630	95,500	0.8
150,000 to 200,000	1,060	4.66	3,440,080	1.15	3,245	87,510	1.2
200,000 to 250,000	720	3.16	3,066,520	1.02	4,259	34,960	2.1
250,000 to 500,000	1,880	8.26	14,558,080	4.86	7,744	43,410	4.3
500,000 to 1,000,000	2,780	12.21	26,698,760	8.91	9,604	13,160	21.1
1,000,000 and over	6,100	26.80	242,686,610	81.01	39,785	6,150	99.2
<b>Total</b>	<b>22,760</b>	<b>100.00%</b>	<b>\$299,572,440</b>	<b>100.00%</b>	<b>\$13,162</b>	<b>3,080,840</b>	<b>0.7%</b>

Based on a simulation of tax year 2017 provided by the Wisconsin Department of Revenue.



**ATTACHMENT 2**

**Change in Gross Individual Income Tax Under Proposal to Change the Personal Exemption  
for Taxpayers at Four Income Levels by Filing Status for Tax Year 2017**

<u>Assumptions</u>	<u>Married Joint Filers with Two Children</u>				<u>Single Filers with No Children</u>			
	\$25,000	\$45,000	\$70,000	\$100,000	\$15,000	\$25,000	\$40,000	\$60,000
Adjusted Gross Income	2	2	2	2	0	0	0	0
Number Children								
Exemption Amount								
Current Law	\$2,800	\$2,800	\$2,800	\$2,800	\$700	\$700	\$700	\$700
Proposal	16,975	13,195	8,470	2,800	7,788	6,213	3,850	700
Change	14,175	10,395	5,670	0	7,088	5,513	3,150	0
Gross Tax Amount								
Current Law	\$147	\$1,337	\$3,205	\$5,458	\$157	\$677	\$1,698	\$3,103
Proposal	0	730	2,849	5,458	0	384	1,501	3,103
Change	-147	-607	-356	0	-157	-293	-197	0

  

<u>Assumptions</u>	<u>Head of Household Filers with Two Children</u>				<u>Married Separate Filers with One Child</u>			
	\$20,000	\$35,000	\$55,000	\$70,000	\$15,000	\$25,000	\$40,000	\$50,000
Adjusted Gross Income	2	2	2	2	1	1	1	1
Number Children								
Exemption Amount								
Current Law	\$2,100	\$2,100	\$2,100	\$2,100	\$1,400	\$1,400	\$1,400	\$1,400
Proposal	8,850	6,825	4,125	2,100	8,015	6,125	3,290	1,400
Change	6,750	4,725	2,025	0	6,615	4,725	1,890	0
Gross Tax Amount								
Current Law	\$225	\$1,202	\$2,664	\$3,717	\$216	\$888	\$2,014	\$2,765
Proposal	0	920	2,537	3,717	0	602	1,896	2,765
Change	-225	-282	-127	0	-216	-286	-118	0

