

2023-25 State Budget: Taxes

Evers' Budget Provides Tax Cuts for Working Families, Ensures Wealthiest Wisconsinites Pay What They Owe

March 8, 2023

Taxes are a critical way of providing the resources, infrastructure and services that increase quality of life for all Wisconsinites. They also play an important role in expanding opportunity and enhancing racial equity. Unfortunately, Wisconsin's tax system is a major driver of economic inequality and contributes to the increasing concentration of income and wealth in a few hands—hands that are most likely to be white, due to a long history of racial discrimination.

Who Pays the Most?

Currently, Wisconsin's tax system requires families with fewer resources to pay a greater share of their income in taxes. How so? The state individual income tax is just one part of our tax system. In addition to income taxes, sales taxes and local property taxes are the next two biggest sources of tax revenue, and they both fall more heavily on taxpayers with low incomes. Accounting for the full mix of taxes, the Institute for Taxation and Economic Policy (ITEP), calculates that the "[effective tax rate](#)" for the bottom 20% of Wisconsinites by income is 11.4%, compared to 10.9% for the middle fifth and 8.0% for the top 1% by income.

The Governor's budget would create a more just tax system for total state and local taxes. It would do this by:

- targeting proposed income tax cuts to low- and middle-income households,
- increasing [refundable](#) tax credits that benefit households with low incomes, and
- reducing tax breaks for the highest-income state residents.

Family and Individual Reinvestment (FAIR) Credit

The centerpiece of the Governor's tax recommendations is the Family and Individual Reinvestment (FAIR) credit, which would reduce income taxes by about \$840 million over the next two years, primarily for middle-income Wisconsinites. This [nonrefundable](#) credit would cut income taxes by 10% for individuals with incomes below \$100,000 and couples making less than \$150,000. Individuals making up to \$120,000 and couples with income up to \$175,000 would get a smaller credit.

Earned Income & Homestead Credits

However, the FAIR credit would not benefit roughly 900,000 income tax filers, predominantly with low incomes, who don't have a net tax liability. To enable many of them to get a portion of the tax cuts, the Evers budget proposed changes to two refundable tax credits:

- Increases in the Earned Income Tax Credit, which would reduce taxes for working parents by \$125 million over the next two years. This change would help families with low incomes meet their basic needs.
- Expanding eligibility for the Homestead Tax Credit, which would deliver an additional \$99 million in property tax credits to low-income households in the next two years. This change would help low-income renters, who are disproportionately people of color, and seniors afford to stay in their homes.

Additional Credits for Families, Caregivers, & Veterans

The Governor has also proposed several nonrefundable tax credits for families, caregivers, and veterans. These are some of the most notable credits and their cost over the next two years:

- Creating a nonrefundable tax credit for caretakers of family members (\$195 million)
- Increasing the size of the child and dependent care credit (\$55 million)
- Expanding the property tax credit for veterans and their surviving spouses (\$54 million)

Finally, the Governor proposes to increase the refundable research credit for businesses at a cost of \$81 million over two years.

Targeted Increases for Wisconsin's Wealthiest

Governor Evers' budget would offset the tax cuts for low- and middle-income Wisconsinites with revenue from targeted tax increases. This strategy would help accomplish the administration's goal of decreasing total state and local taxes for low- and middle-income families, while also ensuring that the state has enough revenue to make substantial investments in education, health care, and aid for communities.

The Governor's two most significant proposals to generate revenue would also make the tax system more fair by closing tax loopholes that give an advantage to the wealthy and powerful:

- Require big manufacturers to pay their fair share of taxes needed to fund schools, a healthy workforce, and thriving communities. The proposed budget would put a \$300,000 cap on the manufacturing and agriculture credit, which currently lets manufacturers get away with paying almost no income taxes. Tightening this huge tax loophole would increase revenue by more than \$650 million during the 2023-25 biennium.
- Narrow eligibility for the tax scheme that applies a lower tax rate to income from investments than the rate applied to income from work. Limiting eligibility to individuals

making less than \$400,000 and couples making less than \$533,000, the Evers budget would increase revenue by \$339 million, over the next two years.

Looking Ahead

Tax policy will figure prominently in the debate on the state budget bill over the next several months. Although Governor Evers and Republican legislators agree that some of the state's large budget balance should be used for tax cuts, they have vastly different ideas about their size and distribution.

Republican legislators have the authority to totally rewrite the budget bill to reflect their tax priorities, but to get tax cuts signed into law they will have to reach a compromise with the Governor. Ultimately, the outcome of budget negotiations will determine whether responsibility for paying taxes in Wisconsin is distributed fairly across taxpayers or if the tax changes disproportionately benefit the very wealthy and exacerbate the state's growing economic and racial disparities.

One such proposal is a state "flat tax," proposed by some Republicans. This would gradually eliminate the progressive income tax structure and apply the same tax rate to all taxable income. A flat or flatter income tax would primarily benefit the very wealthy, and the Legislative Fiscal Bureau figures show that nearly 900,000 income tax filers—largely with very low incomes—would get no benefit. When fully phased in, a flat tax would reduce the effective tax rate on the top 1% to just 5.1%, compared to 11.2% for the lowest income fifth of taxpayers.

Contact

Kristin Schumacher, kschumacher@kidsforward.org

About Kids Forward

Kids Forward inspires action and promotes access to opportunity for every kid, every family, and every community in Wisconsin, notably children and families of color and those furthest from opportunity. Using a research- and community-informed approach, we advocate for effective, long-lasting solutions that break down barriers to success for children and families. Visit kidsforward.org.

An initiative of Kids Forward, the **Wisconsin Budget Project** is working to enact transformative change with the goal of constructing a new, more equitable economy. Visit wisconsinbudgetproject.org.

