

WISCONSIN SOLUTION CENTER

INSTITUTE FOR REFORMING GOVERNMENT



Policy Solution: Eliminate the Individual Income Tax

PROBLEM: Middle class families and small businesses, still recovering from COVID-19 and the economic shutdowns, are being crushed by Wisconsin's high-income taxes and overall tax burden. Our state needs more than small fixes to ensure that everyday Wisconsinites have the opportunity to realize the American Dream.

With the 9th highest income tax rate in the nation, the Badger State is simply not competitive in the battle for workers and families looking to relocate to low-tax states, it's not competitive for current Wisconsinites who want to hold onto more of their hard-earned money, and it's not competitive for small businesses, a majority of whom file taxes at individual rates.

POLICY SOLUTION: One way to make Wisconsin a national leader: eliminate the personal state personal income tax, increase the state sales tax by 3% - while keep existing sales tax exemptions on everyday items like groceries, rent, medical expenses, and childcare - in order to cut taxes, drive economic growth, and generate new state revenue.

This tax plan will lead to a projected net **\$3.5 billion statewide tax cut, \$1,700 per household**, according to today's new economic analysis from University of Wisconsin-Madison Professor of Economics Noah Williams, director of the Center for Research on the Wisconsin Economy (CROWE) in "[Fundamental State Tax Reform: Eliminating the Income Tax in Wisconsin.](#)" The study also predicts economic growth of \$28 billion and 175,000 new hires. The study can be found [here](#).

Today, IRG joined Wisconsin Manufacturers & Commerce, Americans for Prosperity - Wisconsin, and Americans for Tax Reform in supporting CROWE's study and the need to do bold tax reform to help struggling small businesses and middle-class families. [Press Release here.](#)

TALKING POINTS:

- 1. Wisconsin's top income tax rate is 7.65%, which puts us in the top 10 states for highest top rate in the country. This is a small business tax;** nearly 9 out of 10 employers, accounting for 50.9% of all employment in Wisconsin, pays individual income taxes, and almost 75% of them pay at the highest rate. Add in the federal income tax, and these **small businesses are paying 47.7% -almost half of all their income - to the government.**
- 2. Middle class families, who are already losing money due to runaway inflation, are hit hard by Wisconsin's income taxes. They pay the highest effective tax rate, meaning they pay a higher percentage of wages in taxes than higher earners.**

According to CROWE's Professor Williams, households making between \$36,551 and \$126,449 pay higher real-world income tax rates than what is called for by law, with a family of four earning \$50,000 paying nearly 10% to state income taxes. That's because of the technical aspects of state tax credits and the state standard deduction, and how they impact the amount owed as the credits are phased out with higher earnings.

According to Professor Williams' report, take home pay will increase by 9.4% (7.2% after the modified sales tax is considered).

3. Wisconsin would be the only state in the Midwest to have no income tax (and #1 in the Big Ten), giving us a massive competitive advantage and providing a pathway to compete with Florida and Texas. This will help fuel immigration, turning the corner on the state's workforce shortage.

According to Professor Williams, eliminating the income tax will lead to higher employment, increased private sector investment, and lower cost of capital. This increased economic activity is predicted to increase the Wisconsin economy by \$28 billion after the reform compared to the status quo, with **an additional 175,000 people employed** as the higher wages entice people off the sidelines and help drive new workers and families to move to Wisconsin.

4. Wisconsin's state sales tax rate is 5%. When you also include the local sales taxes, the average state and local rate is around 5.43% (the 8th lowest rate in the country). **About half of all consumption is exempt from the sales tax, and remains so under this plan:** including many essential everyday items *like groceries, prescription drugs and medical equipment, medical and dental visits, insurance, rent, gasoline, residential electricity and natural gas during winter months, accounting and other professional activities like finance and legal services.*

Increasing the state sales tax by 3% would still remain lower or on par with state and local sales taxes levied in neighboring states and communities (Chicago - 10.25%, Rockford - 8.75%, Duluth- 8.875%, Minneapolis - 8.025%, Dubuque - 7%, IL - 8.82%, IA - 6.94%)

5. A combination of a state fiscal year cash-on-hand surplus of \$2.58 billion, a \$1.73 billion rainy day fund, unspent federal COVID-19 relief money at the state and local levels, and revenue growth from new economic activity, all coupled with continued spending discipline by lawmakers, will allow the state to balance the budget and fund priorities while shrinking the size of government and delivering meaningful tax relief.

TELL US YOUR STORY:

- "Families and business owners like myself have not only been hit hard by the pandemic, but also the government's response to it. Now to make matters worse, we are facing sky-high inflation. We need relief and tax reform is a great place to start. **Eliminating the individual income tax in Wisconsin would mean bigger paychecks for my employees to support their families with, and more opportunity for me to grow my bakery.**"

Kathy Schumann, Owner, Doughlicious (Appleton, WI)

- "There's no doubt that Wisconsin has some of the hardest working people in the country - we know because we employ a lot of them on our team. But if Wisconsin doesn't take action to make our tax climate more competitive, I fear we will continue to face significant workforce issues. IRG's proposal to eliminate the individual income tax completely reimagines what is possible for our state. **Reducing state income tax will raise take home pay for hard working families and will pull people off the sidelines and back into the workforce.**"

Jesse Adams, President, Adams Electric (Elkhorn, WI)

- "**Eliminating the individual income tax will result in an influx of capital across the employment spectrum, driving a stronger economy and creating more opportunity for all.** This is precisely the kind of structural reform our state needs to increase our job-creating capacity."

Steven Wiberg, President, Therm-Tech (Waukesha)