



INSTITUTE FOR REFORMING GOVERNMENT

Wisconsin Legislature Unveils Plan to Cut Income Taxes by \$3.5 Billion, Helping Middle Class Wisconsinites Keep More of Their Paychecks

WHAT IT IS. Earlier today, legislative leaders announced a plan to cut taxes by \$3.5 billion and simplify Wisconsin's four bracket system. The plan would reduce the top bracket from 7.65% to 6.5% and collapse the middle brackets into a single bracket of 4.4%. According to plan authors, the average taxpayer will save \$573 annually. With rate reductions that target the middle class, working families, and small business owners, this proposal will send a signal that Wisconsin realizes that it must be more competitive with other states who have made significant reforms in recent history.

The plan announced today has similarities to what was proposed in a recent IRG release, [Playbook for Income Tax Relief in Divided Government](#). Similar to the plan that was released, IRG proposed collapsing the two middle brackets into a single 4.5% rate. The bottom rate was set at 2% and the top rate was set to 6.15%. When dynamically scored by the Center for Research on the Wisconsin Economy (CROWE) at the University of Wisconsin, this three bracket system would save the median household hundreds of dollars annually and would improve almost all of the key economic indicators. The plan unveiled today will have a similar impact.

KEY TAKEAWAYS. Tax relief has a direct impact on the everyday lives of middle class families and small business owners. Here is what you can expect if this plan is enacted:

Alleviate the burden of Wisconsin's top marginal rate. Lowering the top marginal rate will ignite small businesses and job creators across the state. 90% of Wisconsin's small businesses pay income tax through the individual income tax. These businesses employ half of Wisconsin's workforce and two-thirds are paying at the highest rate. Not to mention that when you layer federal income tax over the top - these businesses are paying [almost 48%](#) of their income to the government. Cutting the top rate down to 6.5% pushes Wisconsin [ahead of six other states](#) that will now have a higher top marginal rate.

Tax relief for middle class Wisconsinites. It's not just the top rate that is going to drive economic growth. By reducing and collapsing the two middle brackets to a single bracket with lower rate of 4.4%, the plan dramatically simplifies and lowers the rates paid by the middle class. In fact, the average Wisconsin taxpayer will save \$573 annually under this plan.

Stem the flow of those leaving Wisconsin for lower tax states. A recent report from IRG, [Lost Revenue](#), highlighted that almost 60% of those leaving Wisconsin in 2021, moved to states with a flat tax or no income tax at all. With an average tax return showing an income of \$82,370.79, these are middle class individuals and families leaving our state when we most need them to stay.

Bipartisan support. Recent polls show that there is bipartisan support in Wisconsin to lower the state's income taxes too:

- [75% of Wisconsinites](#) were in favor of lowering income taxes.
- 70% of Wisconsinites thought lowering the income tax would help alleviate the worker shortage.
- 72% of Wisconsin Democrats thought that lowering the income tax could alleviate the worker shortage.
- [59% of Wisconsinites](#) thought income taxes were too high.

BRACKET CHANGES. Here is the comparison of current income brackets to what is being proposed.

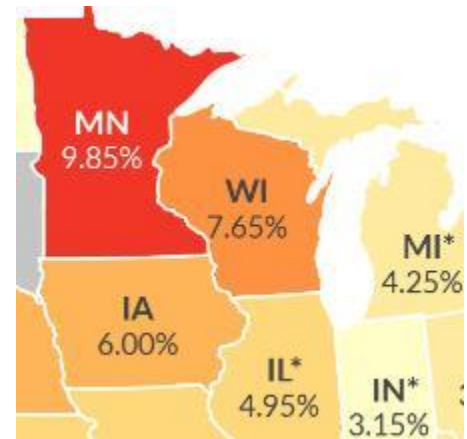
Current Tax Brackets

Marginal Rate	Single	Married Joint	Married Separate
3.54%	Less than \$12,760	Less than \$17,010	Less than \$8,510
4.65%	\$12,760 to \$25,520	\$17,010 to \$34,030	\$8,510 to \$17,010
5.30%	\$25,520 to \$280,950	\$34,030 to \$374,600	\$17,010 to \$187,300
7.65%	Over \$280,950	Over \$374,600	Over \$187,300

Proposed Tax Brackets

Marginal Rate	Single	Married Joint	Married Separate
3.5%	Less than \$13,810	Less than \$18,420	Less than \$9,210
4.4%	\$13,810 to \$304,170	\$18,420 to \$405,550	\$9,210 to \$202,780
6.5%	Over \$304,170	Over \$405,550	Over \$202,780

WHY IT MATTERS. Wisconsin has the second highest top marginal rate in the Midwest, beat only by Minnesota. In fact, of our neighboring states, Wisconsin and Minnesota are the only two states that have a progressive income tax ([Iowa](#) is currently moving to a flat tax with goals of elimination). Illinois to our south has a flat tax rate of 4.95%. The move towards a better tax climate is not a partisan issue either, even the [Democratic Governor of Colorado](#) believes that his state should eliminate the income tax.



In the budget he released earlier this year, Governor Evers proposed a 10% tax credit for individuals with an adjusted gross income (AGI) of \$100,000 or less and families with an AGI of less than \$150,000. This would save the median household around \$200 annually. However, the Governor's plan does not just reduce income taxes. His plan is offset by tax increases on job creators which results in a net increase of [\\$100 million](#).

This new plan would more than quadruple the Governor's income tax cut, making a bold statement to Wisconsinites - middle class families across the state deserve to keep more of their own money. With an average annual tax cut of \$573, this tax plan offers more relief to the middle class than the Governor's proposal. It also sends a message to small businesses, alleviating their tax burden. If we want businesses to stay, invest, and grow in Wisconsin, we need real tax reform that will make Wisconsin competitive with its neighbors.

IRG: LEADING ON TAX REFORM. In 2021, IRG led the charge for transformational tax reform when we announced a plan to eliminate the income taxes. Since then, IRG and its partners at IRG Action Fund have been working tirelessly to promote income tax reform. In the past two years we have released the following, along with multiple op-eds and numerous radio appearances promoting income tax reform:

- First plan to [eliminate the income tax](#) in Wisconsin
- [Polling data](#) showing support for tax relief
- [Playbook for Income Tax Relief in Divided Government](#)
- [Lost Revenue](#)

WHAT'S NEXT. The Joint Finance Committee is expected to take up the plan **TONIGHT**. If approved, both houses of the legislature will need to vote on the plan as part of the budget bill and send it to the Governor for approval or veto.