



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #100

### **Indexing Top Bracket (General Fund Taxes -- Individual and Corporate Income Taxes)**

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#### **CURRENT LAW**

Under the 1999-01 biennial budget (1999 Wisconsin Act 9), a fourth income tax bracket was created, beginning in tax year 2000. Act 9 established the ceilings for the third bracket (and the corresponding floors for the fourth bracket), and provided that the amounts would be indexed for inflation, starting in 2001. Under the language in Act 9, the calculations of the ceilings for the third bracket for 2000 were based on changes in the Consumer Price Index (CPI) over 1997, which is the same way that the lower brackets are adjusted. But for 2001 and thereafter, Act 9 specified that the reference for the ceilings of the third bracket was the change in the CPI over 1999. While the intention was to adjust the brackets upward for increases in inflation, the actual effect was that the ceilings for the third brackets were lower for 2001 than for 2000.

#### **GOVERNOR**

Modify the indexing adjustment for the top individual income tax bracket for tax year 2002 and thereafter. Specify that, for tax year 2002 and thereafter, the ceilings for the third bracket would be indexed to the change in the CPI from 1997, rather than from 1999, as is the case for the other brackets and as would be consistent with the treatment of the ceilings for the third tax bracket for tax year 2000. The administration estimates that this provision would reduce general fund tax collections from the individual income tax by \$450,000 in 2002-03.

#### **MODIFICATION TO BILL**

Reestimate the fiscal effect of this provision. Based on simulations with the 1999 Wisconsin tax sample, it is now estimated that this provision would reduce individual income tax

collections in 2002-03 by \$750,000. Compared to the bill, the revised estimates would reduce general fund tax collections by \$300,000 in 2002-03.

**Explanation:** The modification is based on more current information than was available at the time of the original estimate.

<b>Modification</b>	<b>GPR</b>
<b>2001-03 REVENUE</b> (Change to Bill)	- \$300,000

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